

**COUNTY COMMISSIONERS OF
WASHINGTON COUNTY**

FINANCIAL REPORT

JUNE 30, 2004



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Smith Elliott Kearns & Company, LLC
Certified Public Accountants & Consultants

INDEPENDENT AUDITOR'S REPORT

County Commissioners of
Washington County, Maryland

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information, of the County Commissioners of Washington County, Maryland, as of and for the year ended June 30, 2004, which collectively comprise the County's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Management of the County Commissioners of Washington County. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the Board of Education of Washington County, which represents the discretely presented component unit. Those financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinion, in so far as it relates to the component unit presentation of the Board of Education of Washington County, is based on the report of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the report of other auditors provide a reasonable basis for our opinions.

In our opinion, based on our audit and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information, of the County Commissioners of Washington County as of June 30, 2004, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 7, 2004, on our consideration of the County Commissioners of Washington County's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on its compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The Management's Discussion and Analysis and the other required supplementary information on pages 2 through 12 and 56 through 61 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We and the other auditors have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Smith Elliott Kearns & Company, LLC

Hagerstown, Maryland
October 7, 2004



Management's Discussion and Analysis

This discussion and analysis of Washington County's (County) financial statements is designed to introduce the basic financial statements and provide an analytical overview of the County's financial activities for the fiscal year ended June 30, 2004. The basic financial statements are comprised of the government-wide financial statements, fund financial statements, and footnotes. We hope this, in conjunction with additional information provided within the statements, will assist readers in identifying significant financial issues and changes in the County's financial position.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the County's basic financial statements. The County's basic financial statements are comprised of three components: **1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements**. This report also contains **4) supplementary information** in addition to the basic financial statements themselves.

1) Government-wide Financial Statements

The government-wide financial statements are designed to provide readers with a broad overview of the County's finances, in a manner similar to a private business. The government-wide financial statements include a *statement of net assets* and a *statement of activities*.

- ❑ The *statement of net assets* presents information on all of the County's asset and liabilities, with the difference between the two reported as net assets. Over time, increases and decreases in net assets may serve as a useful indicator of whether the financial position of the County is improving or deteriorating.
- ❑ The *statement of activities* presents information showing how the government's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods. (E.g., uncollected taxes and earned but unused vacation leave).

Both of these financial statements distinguish functions of the County that are principally supported by taxes and intergovernmental revenues (governmental activities) and activities from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities).

- ❑ The *governmental activities* of the County include education, general government, parks and recreation public safety, courts, health and social services, and highway maintenance.
- ❑ The *business-type activities* of the County include airport, public golf course, public transit, solid waste, and water quality operations.

The government-wide financial statements include not only the County itself (known as the primary government), but also includes the Washington County Board of Education as a legally separate component unit and is reported separately from financial information presented for the primary government itself.

The government-wide financial statements can be found on pages 13-14 of this report.

2) ***Fund Financial Statements***

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The County, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the County can be divided into three categories: *governmental*, *proprietary*, and *fiduciary* funds.

- ❑ ***Governmental Funds.*** Governmental Funds are used to account for the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The county maintains seven individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balance for the general, capital improvement, community partnership, foreign trade zone, inmate welfare, agricultural education, and highway funds.

The county adopts an annual appropriated budget for its general, community partnership and highway fund. A budgetary comparison statement has been provided for these funds to demonstrate budgetary compliance.

The basic governmental fund financial statements can be found on pages 15-17 of this report.

- ❑ ***Proprietary funds.*** When the county charges customers for a service it provides, whether to outside customers or to other units of government, these services are generally reported in proprietary funds. *Proprietary funds* are reported in the same way that all activities are reported in the Statement of Net Assets and the Statement of Activities. Proprietary funds are comprised of two types: 1) *Enterprise funds* and 2) *Internal service funds*. The county uses enterprise funds to account for its airport, public golf course, public transit, solid waste, and water quality operations. Internal service funds are used to report activities that provide supplies and services for the governments other programs and activities. The county does not utilize an internal service fund.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail.

The basic proprietary fund financial statements can be found on pages 19-20 of this report.

- ❑ ***Fiduciary Funds.*** Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statement because the resources of those funds are not available to support the county's own programs. The accounting used for fiduciary funds is similar to proprietary funds.

The basic fiduciary fund financial statements can be found on pages 21-22 of this report.

3) ***Notes to the Financial Statements***

The notes to the financial statements provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 24-55 of this report.

4) *Supplementary Information*

In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning the county's progress in funding its obligation to provide pension benefits to its employees and includes budgetary comparison schedules for the general, community partnership and highway funds.

In addition to this MD&A, required supplementary information can be found on page 56-61 of this report.

Financial Analysis on Government-Wide Financial Statements

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the county, assets exceeded liabilities by \$445,875,398 as of the close of the most recent fiscal year.

Washington County, Maryland Net Assets (Government-Wide)

	Governmental Activities		Business-type Activities		Total		Total Percent Change
	2004	2003	2004	2003	2004	2003	
Current and other assets	78,173,196	60,218,954	28,043,589	23,327,880	106,216,785	83,546,834	27%
Capital assets	382,245,170	408,869,265	171,617,576	166,282,669	553,862,746	575,151,934	(4%)
Total Assets	460,418,366	469,088,219	199,661,165	189,610,549	660,079,531	658,698,768	.2%
Current and other liabilities	44,707,790	36,080,246	16,043,208	14,547,952	60,750,998	50,628,198	20%
Long-term liabilities	79,588,962	81,025,273	73,865,173	73,241,609	153,454,135	154,266,882	(.5%)
Total liabilities	124,296,752	117,105,519	89,908,381	87,789,561	214,205,133	204,895,080	5%
Invested in Capital Assets Net of Related Debt, net	352,562,531	379,688,692	113,346,879	104,113,868	465,909,410	483,802,560	(4%)
Restricted Net Assets	9,688,961	7,614,124	4,300,641	1,073,602	13,989,602	8,687,726	61%
Unrestricted Net Assets	(26,129,878)	(35,320,116)	(7,894,736)	(3,366,482)	(34,024,614)	(38,686,598)	(12%)
Total Net Assets	336,121,614	351,982,700	109,752,784	101,820,988	445,874,398	453,803,688	2%

The largest portion of the county's net assets reflects its investments in capital assets (e.g., land, roads, and bridges), less related outstanding debt used to acquire those assets in the amount of \$461,534,767. The county uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the county's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

Unrestricted net assets in governmental activities have been reduced by \$45,547,090 in long-term debt, resulting in negative unrestricted net assets of (\$26,129,878). This long-term debt was incurred by the county's general fund for the purpose of capital asset acquisition for the Board of Education (\$40,008,552) and Hagerstown Community College (\$5,538,538). The capital assets acquired with these bonds are not reflected in the county's financial statements.

Washington County, Maryland
Change in Net Assets
(Government-Wide)

	Governmental Activities		Business-type Activities		Total	
	2004	2003	2004	2003	2004	2003
Program revenues:						
Charges for Services	2,125,979	1,884,948	18,722,249	16,728,268	20,848,228	18,613,216
Operating Grants and Contributions	12,324,942	12,864,646	998,175	842,310	13,323,117	13,706,956
Capital Grants and Contributions	977,714	3,683,512	7,156,043	2,128,738	8,133,757	5,812,250
General Revenues:						
Property Taxes	75,591,707	73,046,935	-	-	75,591,707	73,046,935
Local Taxes	67,466,382	57,063,665	-	-	67,466,382	57,063,665
Other	2,690,140	2,949,065	81,675	75,071	2,771,815	3,024,136
Total Revenues	161,176,864	151,492,771	26,958,142	19,774,387	188,135,006	171,267,158
Program Expenses:						
General Government	44,204,278	45,700,237	-	-	44,204,278	45,700,237
Public Safety	18,104,674	17,263,206	-	-	18,104,674	17,263,206
Health	1,802,583	1,802,474	-	-	1,802,583	1,802,474
Social Services	871,721	864,703	-	-	871,721	864,703
Education	86,343,458	83,843,993	-	-	86,343,458	83,843,993
Parks and Recreation	3,799,446	3,761,997	-	-	3,799,446	3,761,997
Natural Resources	315,584	319,239	-	-	315,584	319,239
General Operations	1,297,381	1,269,438	-	-	1,297,381	1,269,438
Intergovernmental	1,735,336	1,166,737	-	-	1,735,336	1,166,737
Community Promotion	2,661,721	2,559,864	-	-	2,661,721	2,559,864
Highways and Streets	6,673,683	7,043,992	-	-	6,673,683	7,043,992
Interest on long-term debt	4,196,738	4,278,876	-	-	4,196,738	4,278,876
Business-type Activities:						
Water Quality	-	-	10,308,764	10,522,520	10,308,764	10,522,520
Solid Waste	-	-	8,173,398	5,981,210	8,173,398	5,981,210
Public Transportation	-	-	2,042,498	1,889,000	2,042,498	1,889,000
Airport	-	-	2,183,054	2,805,782	2,183,054	2,805,782
Golf Course	-	-	1,245,262	1,202,807	1,245,262	1,202,807
Total Expenses	172,006,603	169,874,756	23,952,976	22,401,319	195,959,579	192,276,075
Change in net assets before transfers and special items	(10,829,739)	(18,381,985)	(3,005,166)	(2,626,932)	(7,824,573)	(21,008,917)
Special items		-	(104,717)	(139,057)	(104,717)	(139,057)
Transfers	(5,031,347)	(4,416,710)	5,031,347	4,416,710	-	-
Change in Net Assets	(15,861,086)	(22,798,695)	7,931,796	1,650,721	(7,929,290)	(21,147,974)
Net Assets – Beginning of year	351,982,700	374,781,395	101,820,988	100,170,267	453,803,688	474,951,662
Net Assets – End of year	336,121,614	351,982,700	109,752,784	101,820,988	445,874,398	453,803,688

The County's total net assets decreased by \$7,929,290 during the current fiscal year. Total net assets as of June 30, 2004 were \$445,874,398, representing a 2% decrease.

Governmental Activities (government-wide) – Change in Net Assets:

Net assets in governmental activities decreased by \$15,861,086, thereby accounting for more than 100% of the total decline in net assets of the County. Key factors in this decrease are as follows:

- ❑ Property tax collections exceeded budget by \$299,087, a result of both real estate and personal property tax growth of 3.4% versus the budgeted tax base growth of 4.9%.

- ❑ Recordation tax revenue was up by 19% or \$1,507,875, reflecting the County continued trends in development, for both commercial and residential growth, backed with refinance and mortgage application volume.
- ❑ Income Tax revenue exceeded budget by \$2,855,435. Of this \$1,418,671 will be earmarked for future use in FY2005 for one-time capital and cash reserve reservations. This \$1,418,671 represents a one-time distribution from the State Advanced Unclaimed Revenue Distribution Reserve Fund for fiscal years 2001, 2002, and 2003. The remaining amount of \$1,436,765 represents actual personal income growth of 9% over last years actual and a 3% increase over the fiscal year 2004 budget.
- ❑ Net departmental costs closely paralleled budgeted expenditures, with the exception of economic development incentives, which combined for a total of \$906,400. One noteworthy exception, however, was the County's depreciation and amortization of infrastructure and fixed assets on the government-wide financial statements in an amount of approximately \$26,600,000.

Business-type Activities (government-wide) – Change in Net Assets:

Business-type activities increased the County's net assets by \$7,931,796, offsetting a portion of the decline in net assets attributable to governmental activities. Key elements of this increase are as follows:

- ❑ Water Quality net assets increased by \$3,092,955, for a total of \$70,379,477. The significant portion of the increase, which resulted from increases in both connection fees and user rates, was designed to provide resources to meet future debt service requirements and to provide for stable contingency reserves. Revenues exceeded budget as a result of increased demand, which was projected in the cost of service model at 1%. The actual growth percentage exceeded the projection of 1%.
- ❑ Solid Waste total net assets were \$5,854,557 as of June 30, 2004, representing a \$2,246,387 decrease. A major portion of this decrease resulted from major unanticipated rainfall received during fiscal year 2004. In addition amortized cost for closure and post closure care accounted for over \$1.3 million. These funds are set aside for future use in the closure and post closure stage of landfill sites.
- ❑ Public Transit total net assets were \$1,518,343 as of June 30, 2004, representing a \$194,733 decrease. Federal, state, and local operating grants of \$1,391,153 subsidize transportation activities. Capital grants were generated for capital acquisition in the amount of \$154,927.
- ❑ Airport total net assets were \$28,865,526 as of June 30, 2004, representing a \$7,355,595 increase. The net increase is a result of capital grants for construction activity in the amount of \$8,132,759 and cannot be used for operations. Operating grants from local funding were \$107,150. The remaining decrease resulted from depreciation expense.
- ❑ Golf Course net assets were \$3,134,881 as of June 30, 2004, representing a \$75,634 decrease. The net decrease can be attributed mainly to a decrease in the anticipated number of budgeted rounds. This decrease in rounds can be correlated to the shortfall in direct golf course operating revenues of over \$142,000, when combined with restaurant sale shortfalls.

Financial Analysis on Government Fund Financial Statements

The County uses fund accounting to ensure and demonstrate compliance with finance related legal requirements and restrictions, and fiscal accountability.

Governmental Funds:

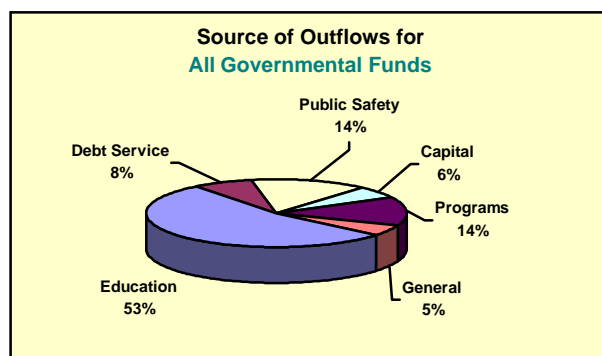
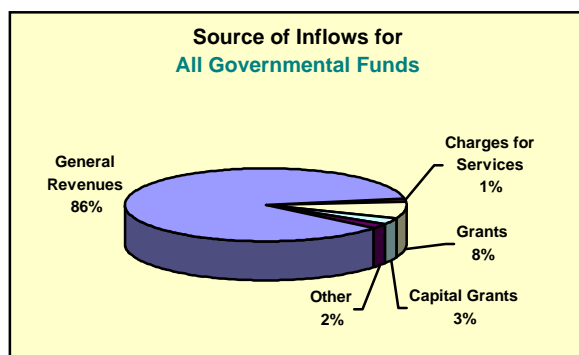
The focus of the County's governmental funds is to provide information on near term inflows, outflow, and balances of spendable resources. Such information is useful in assessing the County's financing requirements. In particular, fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, the County's governmental funds reported combined fund balances of \$43,047,371, an increase of \$8,819,186 in comparison with the prior year. Approximately \$17,194,946 of this amount is designated for cash reserves, \$ 21,648,038 is restricted for construction projects and designated programs. The remaining amount is appropriated for one-time uses in fiscal year 2005 in the amount of \$1,418,671 and other uses such as long-term receivables and program services. In the combined governmental activities the County maintains seven separate funds. Shown below are fund balances and net changes in fund balance for each.

Washington County, Maryland
Fund Balance and Net Changes in Fund Balance
(Government Fund Bases)

Governmental Activities – Fund Statements	Fund Balance			Net Change in Fund Balance		
	2004	2003	% Change	2004	2003	% Change
General Fund	21,399,333	17,445,621	23%	3,953,712	2,854,411	39%
Foreign Trade Zone	6,692	23,305	(71%)	(16,613)	(9,067)	(83%)
Community Partnership	492,008	317,767	55%	174,241	317,354	(45%)
Inmate Welfare Fund	175,328	130,034	35%	45,294	130,034	(65%)
Agricultural Education Fund	61,964	17,698	250%	44,266	17,698	150%
Highways	1,338,834	1,527,318	(12%)	(188,484)	148,365	(227%)
Capital Improvement Projects	19,573,212	14,766,442	33%	4,806,770	(811,060)	692%
Total	43,047,371	34,228,185	26%	8,819,186	2,647,735	233%

The following reflects all inflows and outflows of the governmental funds in total for the fiscal year ending June 30, 2004.



- The **General fund** is the chief operating fund of the County. At the end of the current fiscal year, unreserved fund balance of the general fund was \$19,105,378, while total fund balance reached \$21,399,333. As a measure of the General Fund's liquidity, it may be useful to compare both unreserved fund balance and total fund balance to total fund expenditures. Unreserved fund balance represents \$17,194,946 designated for cash reserves, which represents 12.39% of total General Fund budgeted expenditures, while the remaining fund balance represents undesignated amounts.

The fund balance of the County's General Fund increased by \$3,953,712 during the current fiscal year. Key factors in this growth are:

- Property tax collections exceeded budget by \$299,087, a result of both real estate and personal property tax growth of 3.4% versus the budgeted tax base growth of 4.9%.
- Recordation tax revenue was up by 19% or \$1,507,875, reflecting the County continued trends in development, for both commercial and residential growth, backed with refinance and mortgage application volume.

- Income Tax revenue exceeded budget by \$2,855,435. Of this \$1,418,671 is earmarked for future appropriations in FY2005 for one-time capital uses and cash reserve additions. This \$1,418,671 represents a one-time distribution from the State Advanced Unclaimed Revenue Distribution Reserve Fund from fiscal years 2001, 2002, and 2003. The remaining amount of \$1,436,765 represents actual personal income growth of 9% over last years actual and a 3% increase over the fiscal year 2004 budget.
- ❑ The **Highway fund** has a total fund balance of \$1,338,834, which is unreserved but designated for program specific costs related to maintenance, capital and operations of County roads. The fund balance of the County's Highway Fund decreased by \$188,484 during the current fiscal year. Key factors in this change are:
 - The small shortfall was the result of the State of Maryland reduction in Highway User Revenue, which required the use of the Highway Fund cash reserves.
 - Operational savings of \$449,486 funded a majority of the shortfall in the revenue.
 - Cash reserves are included in the \$1,338,834 fund balance total of \$1,068,050 and represent 17% of operations and maintenance expenditures or 8.6 weeks.
- ❑ The **Capital Project Fund** is used to account for major capital acquisition and construction of County operations. At the end of the current fiscal year the Capital Improvement Fund has a total fund balance of \$19,573,212, all of which is designated for approved major capital projects. Major funding sources for these projects are pay-go-funding, debt proceeds, fees and taxes and grants. Fund balance increased by \$4,806,770 for the current fiscal year. The increase in fund balance is the result of timing difference in projects with funding proceeds and project expenditures.
- ❑ The County's **Foreign Trade Zone, Community Partnership, Inmate Welfare, and Agricultural Education Funds** combined have a fund balance of \$735,992. The net increase in fund balance during the current year in these funds was \$247,188. These funds represent monies designated for specific programs and services.

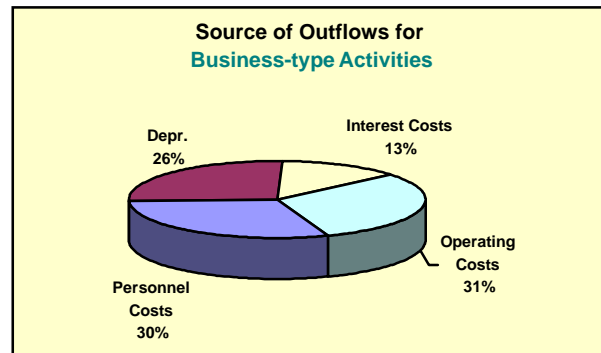
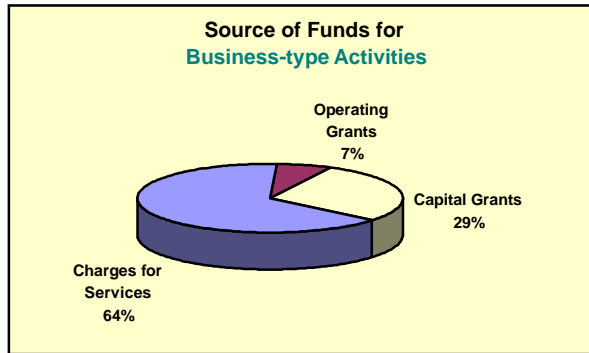
Proprietary Funds:

The County's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail. Net assets and net income (loss) were as follows:

Washington County, Maryland
Net Assets and Net Income (Loss)
(Government Fund Basis)

Enterprise Fund Statements	Net Assets			Net Income (Loss)		
	2004	2003	% Change	2004	2003	% Change
Water Quality	70,379,477	67,286,522	5%	3,092,955	1,911,339	62%
Solid Waste	5,854,557	8,100,944	(28%)	(2,246,387)	(825,390)	(172%)
Public Transit	1,518,343	1,713,076	(12%)	(194,733)	(297,172)	(35%)
Airport	28,865,526	21,509,931	34%	7,355,595	1,079,823	581
Black Rock	3,134,881	3,210,515	(2%)	(75,634)	(217,879)	(65%)
Total	109,752,784	101,820,988	8%	7,931,796	1,650,721	381%

The following reflects the inflows and outflows of the business-type activity funds for the fiscal year ending June 30, 2004.



Other factors concerning the finances of these funds have been addressed in the discussion of the County's business-type activities under "Financial Analysis on Government-Wide Financial Statements".

General Fund Budgetary Analysis – Government Fund Financial Statement Basis

Washington County, Maryland
General Fund Budgetary Analysis
As of June 30, 2004
(Government Fund Basis)

Category	Budgetary Amounts		Actual	Difference	
	Original	Final		Org. Budget vs. Final Budget	Final Budget vs. Actual
Revenues:					
Property Tax	75,197,197	75,197,197	75,496,283	-	299,086
Local Tax	56,992,002	59,283,682	63,770,149	2,291,680	4,486,467
Other Revenue	4,151,465	4,624,479	4,787,388	473,014	162,909
Grant	2,422,000	4,259,535	3,834,026	1,837,535	(425,509)
Total Revenues	138,762,664	143,364,893	147,887,846	4,602,229	4,522,953
Expenses:					
General Government	12,593,518	14,664,841	14,447,700	2,071,323	217,141
Public Safety	18,211,881	18,534,650	18,345,498	322,769	189,152
Health and Social Services	2,676,671	2,676,671	2,674,304	-	2,367
Education	81,518,409	81,518,409	81,517,409	-	1,000
Parks, Recreation, Natural Resources	3,939,944	3,948,081	3,799,342	8,137	148,739
General Operations	775,061	775,061	1,466,456	-	(691,395)
Intergovernmental	7,537,922	9,737,922	10,171,760	2,200,000	(433,838)
Debt Service	11,509,258	11,509,258	11,511,665	-	(2,407)
Total Expenses	138,762,664	143,364,893	143,934,134	4,602,229	(569,241)
Net Increase in Assets - 06/30/04	-	-	3,953,712	-	3,953,712

Original Budget vs. Final Budget:

The net budgetary change of \$4,602,229 resulted from grant and capital transactions. Increases in grants are reflected, as revenue was received or expended during the fiscal year from additional state or federal grants of \$1.8 million. In addition, \$2.3 million in one-time capital transfers were made to the Capital Improvement Fund to fund

specific project costs. The remaining difference is due to various operational changes such as salary adjustments, operating increases, etc.

Final Budget vs. Actual Results:

Final year-end results yielded a \$3.9 million increase to cash reserves, \$4.5 million over in revenues but \$.6 million over in expenditures. Property Tax revenue held close to projections with a 3.4% actual growth. Recordation Tax revenue up by 19% or \$1.5 million, reflected the County's continued trend in development, for both commercial and residential growth, backed with refinance and mortgage application volume. Offsetting these revenue slightly were expenditure overages of \$.6 million. This amount was mainly attributable to economic development activity, which increased the County's income base.

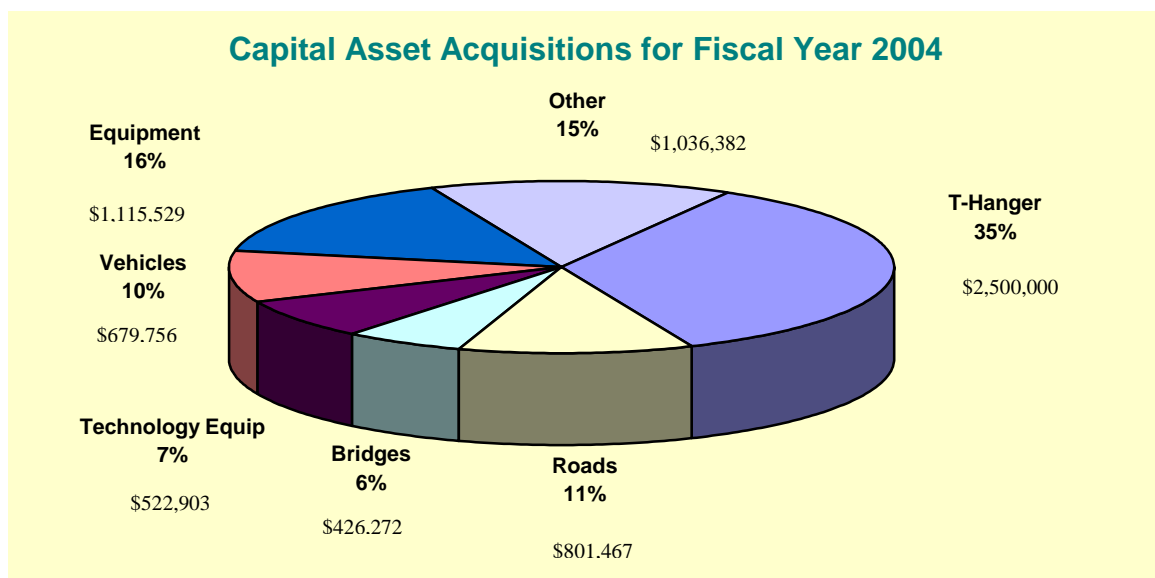
Capital Asset Administration – Government Wide Statements

The County's investment in capital assets for its governmental and business-type activities as of June 30, 2004 amounts to \$537,538,468 (net of depreciation). This investment in capital assets includes land, buildings, bridges, roads, equipment, and operational facilities.

Washington County, Maryland
Net Capital Assets
(Government Fund Basis)

Description	Governmental Activities		Business-type Activities		Total		% Change
	2004	2003	2004	2003	2004	2003	
Land and Land Improvement	5,767,597	6,005,327	43,616,495	46,090,047	49,384,092	52,095,374	(5%)
Infrastructure	336,006,033	362,609,635	-	-	336,006,033	362,609,635	(7%)
Building and Improvements	25,119,723	26,108,021	14,716,911	12,653,434	39,836,634	38,761,455	3%
Vehicles	3,434,263	3,749,220	849,907	1,118,957	4,284,170	4,868,177	(12%)
Machinery and Equipment	3,047,396	3,205,387	4,020,520	3,848,378	7,067,916	7,053,765	.2%
Office Furniture/Equipment	4,362,336	4,605,193	398,801	536,732	4,761,137	5,141,925	(7%)
Treatment Plant	-	-	37,204,250	38,037,256	37,204,250	38,037,256	(2%)
Facilities, Lines, and Mains	-	-	58,994,236	59,732,265	58,994,236	59,732,265	(1%)
Total	377,737,348	406,282,783	159,801,120	162,017,069	537,538,468	568,299,852	(5%)

Major capital asset events during the current fiscal year included the following:



Additional information on the County's capital assets can be found in note 5 on pages 34-36 of this report.

Debt Administration

At the end of the current fiscal year, the County had total outstanding debt of \$143,630,321. This amount was comprised of debt backed by the full faith and credit of the County and user fees. The County's debt decreased by \$5,466,390 during the current fiscal year. This net decrease was the result of \$10,866,390 in principal payments and transaction related expenses of refunding and \$5,400,000 in new borrowings. Funds borrowed were used to fund projects for the Washington County Board of Education in the amount of \$4,000,000 and airport projects in the amount of \$946,357. Other projects funded included infrastructure and courthouse improvements.

Washington County, Maryland Outstanding Debt (Government Fund Basis)

Instrument Type	Governmental Activity		Business-type Activity		Total Outstanding Debt		% Change
	2004	2003	2004	2003	2004	2003	
General Obligation Bonds	84,595,731	85,713,459	29,151,435	49,670,804	113,747,166	135,384,263	(16%)
County Transportation Bonds	612,678	995,203	-	-	612,678	995,203	(38%)
Maryland State Loans	203,453	287,394	2,314,942	3,238,313	2,518,395	3,525,707	(29%)
Maryland Water Quality Bonds		-	26,752,082	9,191,541	26,752,082	9,191,541	191%
Total	85,411,862	86,996,056	58,218,459	62,100,658	143,630,321	149,096,714	(4%)

The County maintains an A+ rating from Standard and Poor's and an A1 rating from Moody's Investors Service for general obligation debt.

Under the Code of Public Local Law, the amount of general obligation debt the County may issue associated with Water Quality debt is limited to 10 percent of its total assessed valuation of all real estate in the county that is subject to taxation. The current estimated debt limitation for Water Quality debt is \$639,799,040, which is significantly in excess of the County's current general obligation debt.

Additional Information on the County's long-term debt can be found in note 8 on pages 39-43 of this report.

Economic Factors and Fiscal Year 2005 Budget/Rates

- ❑ The unemployment rate for the County as of July 30, 2004 is 3.8%, which is a decrease from the rate of 4.4% one-year ago. The 3.8% rate is favorable compared to the current state rate of 4.1% and the national average of 6.2%.
- ❑ The County's robust economic environment continues as permit trends in both commercial and residential building continue to increase at a rapid pace. This growth has significantly increased the tax base for Washington County, which in turn has increased the median home in the County.
- ❑ During the current fiscal year, the County's general fund unreserved fund balance totaled \$19,105,378. The County has designated \$ 17,194,946 of this for cash reserves. It is intended that this be used for emergencies and to protect the citizens against reducing service levels or raising taxes because of temporary revenue

shortfalls or unpredicted expenditures. It is the policy of the County to maintain the minimum reserve level at the Peer Group Median Target, not to exceed 17%.

- ❑ Sewer rates were increased for the 2005 budget year. The sewer rates were increased an average of 3% for most customers. This revenue increase is based on financial information formulated annually from the County's cost of service model.
- ❑ Tipping Fees were modified in fiscal year 2005 to reflect Cost of Service calculations. Both permit and tip fees were adjusted. The discount tip fee was eliminated and changed to a flat fee of \$39.00 per ton. The permit fee was increased from \$105 to \$120 for regular and \$75 to \$90 for seniors.
- ❑ The County established a building excise tax, effective July 1, 2003 on all new construction in Washington County. This tax will finance school renovation and construction, public safety capital expenditures, public infrastructure, and debt reduction. The amount of the building excise tax was set as follows:
 - (1) Residential multifamily construction - \$1.00 per square foot
 - (2) Residential single-family construction:
 - a. \$.25 per square foot in fiscal year 2004;
 - b. \$.50 per square foot in fiscal year 2005;
 - c. \$.75 per square foot in fiscal year 2006 and thereafter.

There is discussion for the upcoming legislation session in fiscal year 2005 on changing the use and the method of taxation related to the Excise Tax.

Requests for Information

This financial report is designed to provide a general overview of the County's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Office of Budget and Finance, 100 West Washington Street, Room 304, Hagerstown, Maryland 21740. Questions concerning the Washington County Board of Education should contact their offices at Commonwealth Ave, Hagerstown, Maryland 21740.

COUNTY COMMISSIONERS OF WASHINGTON COUNTY

STATEMENT OF NET ASSETS

JUNE 30, 2004

	Primary Government			Component Unit	
	Governmental Activities	Business-type Activities	Total	Board of Education	Total
ASSETS					
Cash and short-term investments	\$ 2,224,036	\$ 6,973,282	\$ 9,197,318	\$ 10,362,922	\$ 19,560,240
Investments	44,468,933	10,943,431	55,412,364	4,131,954	59,544,318
Investment in capital lease	340,347	-	340,347	-	340,347
Property taxes receivable, net of allowance	214,924	-	214,924	-	214,924
Accounts receivable, net of allowance	350,055	934,239	1,284,294	-	1,284,294
Interest receivable	110,681	8,940	119,621	-	119,621
Unbilled receivables	235,001	1,434,183	1,669,184	-	1,669,184
Internal balances	(1,405,836)	1,405,836	-	14,663	14,663
Due from other governmental agencies	30,449,851	5,889,153	36,339,004	1,640,812	37,979,816
Other receivables	-	-	-	389,240	389,240
Inventories	295,506	266,625	562,131	244,210	806,341
Prepaid items	-	1,267	1,267	3,547,100	3,548,367
Recoverable disbursements	7,977	-	7,977	-	7,977
Notes receivable	474,052	-	474,052	-	474,052
Bond issuance costs	407,669	186,633	594,302	-	594,302
Projects under construction	4,507,822	11,816,456	16,324,278	5,729,710	22,053,988
Property, plant, and equipment, net	377,737,348	159,801,120	537,538,468	109,454,934	646,993,402
TOTAL ASSETS	\$ 460,418,366	\$ 199,661,165	\$ 660,079,531	\$ 135,515,545	\$ 795,595,076
LIABILITIES					
Current:					
Current maturities of long-term obligations	\$ 6,904,817	\$ 4,110,057	\$ 11,014,874	\$ -	\$ 11,014,874
Current maturities of capital lease obligations	185,319	399,440	584,759	127,933	712,692
Accounts payable	6,398,818	2,326,546	8,725,364	3,337,891	12,063,255
Accrued expenses	2,259,632	6,010,684	8,270,316	5,936,000	14,206,316
Accrued interest payable	2,101,546	-	2,101,546	-	2,101,546
Allowance for tax adjustments	300,000	-	300,000	-	300,000
Deferred revenues	18,844,943	909,355	19,754,298	5,186,191	24,940,489
Compensated absences	1,147,444	295,011	1,442,455	197,496	1,639,951
Post retirement benefits	112,735	-	112,735	-	112,735
Landfill closure and post-closure costs	-	1,699,573	1,699,573	-	1,699,573
Other liabilities	3,836,832	292,542	4,129,374	-	4,129,374
Liabilities for unpaid claims	2,615,704	-	2,615,704	-	2,615,704
Noncurrent:					
Deferred revenues	-	2,400,000	2,400,000	-	2,400,000
Compensated absences	292,756	130,231	422,987	4,275,247	4,698,234
Post retirement benefits	594,811	-	594,811	-	594,811
Long-term obligations, net	78,507,045	53,950,426	132,457,471	-	132,457,471
Bond premium	-	157,976	157,976	-	157,976
Capital lease obligations	194,350	575,241	769,591	301,630	1,071,221
Landfill closure and post-closure costs	-	16,651,299	16,651,299	-	16,651,299
TOTAL LIABILITIES	\$ 124,296,752	\$ 89,908,381	\$ 214,205,133	\$ 19,362,388	\$ 233,567,521
NET ASSETS					
Invested in capital assets, net of related debt	\$ 352,562,531	\$ 113,346,879	\$ 465,909,410	\$ 114,755,081	\$ 580,664,491
Restricted for:					
John Howard Trust	-	237,500	237,500	-	237,500
Capital projects	8,804,136	4,063,141	12,867,277	-	12,867,277
Community Partnership	492,008	-	492,008	-	492,008
Foreign Trade Zone	6,692	-	6,692	-	6,692
Narcotics Task Force (NTF)	210,797	-	210,797	-	210,797
Inmate reserve	175,328	-	175,328	-	175,328
Unrestricted (deficit)	(26,129,878)	(7,894,736)	(34,024,614)	1,398,076	(32,626,538)
TOTAL NET ASSETS	\$ 336,121,614	\$ 109,752,784	\$ 445,874,398	\$ 116,153,157	\$ 562,027,555

The Notes to Financial Statements are an integral part of this statement.

COUNTY COMMISSIONERS OF WASHINGTON COUNTY

STATEMENT OF ACTIVITIES

YEAR ENDED JUNE 30, 2004

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary Government:				
Governmental activities:				
General government	\$ 44,204,278	\$ 1,615,532	\$ 1,543,553	\$ 347,195
Public safety	18,104,674	510,447	2,434,791	-
Health	1,802,583	-	-	-
Social services	871,721	-	-	-
Education (includes payment to the Board of Education of \$78,827,560)	86,343,458	-	-	159,178
Parks, recreation, and culture	3,799,446	-	28,820	-
Conservation of natural resources	315,584	-	-	-
General operations	1,297,381	-	-	-
Intergovernmental	1,735,336	-	-	-
Community promotion	2,661,721	-	2,704,530	-
Highways and streets	6,673,683	-	5,613,248	471,341
Interest on long-term debt	4,196,738	-	-	-
Total governmental activities	<u>\$ 172,006,603</u>	<u>\$ 2,125,979</u>	<u>\$ 12,324,942</u>	<u>\$ 977,714</u>
Business-type activities:				
Water quality	\$ 10,308,764	\$ 10,405,390	\$ 9,367	\$ -
Solid waste	8,173,398	5,648,638	-	-
Public transit	2,042,498	301,221	973,808	136,477
Airport	2,183,054	1,286,616	15,000	6,931,884
Black Rock Golf Course	1,245,262	1,080,384	-	87,682
Total business-type activities:	<u>\$ 23,952,976</u>	<u>\$ 18,722,249</u>	<u>\$ 998,175</u>	<u>\$ 7,156,043</u>
TOTAL PRIMARY GOVERNMENT	<u><u>\$ 195,959,579</u></u>	<u><u>\$ 20,848,228</u></u>	<u><u>\$ 13,323,117</u></u>	<u><u>\$ 8,133,757</u></u>
Component unit:				
Public school system	\$ 181,953,688	\$ 8,491,331	\$ 34,130,471	\$ 62,912
TOTAL COMPONENT UNIT	<u><u>\$ 181,953,688</u></u>	<u><u>\$ 8,491,331</u></u>	<u><u>\$ 34,130,471</u></u>	<u><u>\$ 62,912</u></u>

General revenues:

Taxes:

Property taxes, levied for general purposes

Income taxes

Other local taxes

Income on investments

Reimbursed expenses

Miscellaneous revenues

Payment from Washington County-unrestricted contributions

Unrestricted grants and contributions

Special items-(loss) on disposal of assets

Transfers

TOTAL GENERAL REVENUES, SPECIAL ITEMS, AND TRANSFERS

CHANGE IN NET ASSETS

NET ASSETS-BEGINNING OF YEAR

NET ASSETS-END OF YEAR

The Notes to Financial Statements are an integral part of this statement.

Net (Expense) Revenue and Changes in Net Assets				
Governmental Activities	Primary Government		Component Unit	Total
	Business-type Activities	Total	Board of Education	
\$ (40,697,998)	\$ -	\$ (40,697,998)	\$ -	\$ (40,697,998)
(15,159,436)	-	(15,159,436)	-	(15,159,436)
(1,802,583)	-	(1,802,583)	-	(1,802,583)
(871,721)	-	(871,721)	-	(871,721)
(86,184,280)	-	(86,184,280)	-	(86,184,280)
(3,770,626)	-	(3,770,626)	-	(3,770,626)
(315,584)	-	(315,584)	-	(315,584)
(1,297,381)	-	(1,297,381)	-	(1,297,381)
(1,735,336)	-	(1,735,336)	-	(1,735,336)
42,809	-	42,809	-	42,809
(589,094)	-	(589,094)	-	(589,094)
(4,196,738)	-	(4,196,738)	-	(4,196,738)
<u>\$ (156,577,968)</u>	<u>\$ -</u>	<u>\$ (156,577,968)</u>	<u>\$ -</u>	<u>\$ (156,577,968)</u>
\$ -	\$ 105,993	\$ 105,993	\$ -	\$ 105,993
-	(2,524,760)	(2,524,760)	-	(2,524,760)
-	(630,992)	(630,992)	-	(630,992)
-	6,050,446	6,050,446	-	6,050,446
-	(77,196)	(77,196)	-	(77,196)
<u>\$ -</u>	<u>\$ 2,923,491</u>	<u>\$ 2,923,491</u>	<u>\$ -</u>	<u>\$ 2,923,491</u>
<u>\$ (156,577,968)</u>	<u>\$ 2,923,491</u>	<u>\$ (153,654,477)</u>	<u>\$ -</u>	<u>\$ (153,654,477)</u>
\$ -	\$ -	\$ -	\$ (139,268,974)	\$ (139,268,974)
\$ -	\$ -	\$ -	\$ (139,268,974)	\$ (139,268,974)
\$ 75,591,707	\$ -	\$ 75,591,707	\$ -	\$ 75,591,707
53,071,877	-	53,071,877	-	53,071,877
14,394,505	-	14,394,505	-	14,394,505
1,366,389	81,675	1,448,064	156,429	1,604,493
800,704	-	800,704	-	800,704
523,047	-	523,047	558,835	1,081,882
-	-	-	78,036,181	78,036,181
-	-	-	64,704,739	64,704,739
-	(104,717)	(104,717)	-	(104,717)
(5,031,347)	5,031,347	-	-	-
<u>\$ 140,716,882</u>	<u>\$ 5,008,305</u>	<u>\$ 145,725,187</u>	<u>\$ 143,456,184</u>	<u>\$ 289,181,371</u>
\$ (15,861,086)	\$ 7,931,796	\$ (7,929,290)	\$ 4,187,210	\$ (3,742,080)
351,982,700	101,820,988	453,803,688	111,965,947	565,769,635
<u>\$ 336,121,614</u>	<u>\$ 109,752,784</u>	<u>\$ 445,874,398</u>	<u>\$ 116,153,157</u>	<u>\$ 562,027,555</u>

The Notes to Financial Statements are an integral part of this statement.

COUNTY COMMISSIONERS OF WASHINGTON COUNTY

BALANCE SHEET - GOVERNMENTAL FUNDS

June 30, 2004

	General Fund	Foreign Trade Zone	Community Partnership Fund	Inmate Welfare Fund	Agricultural Education Center	Highway Fund	Capital Projects Fund	Total Governmental Funds
ASSETS								
Cash	\$ 47,975	\$ 17,408	\$ 1,673,647	\$ 195,500	\$ 69,905	\$ 219,601	\$ -	\$ 2,224,036
Investments	44,468,933	-	-	-	-	-	-	44,468,933
Property taxes receivable, net of allowance	443,718	-	-	-	-	-	-	443,718
Accounts receivable, net of allowance	344,912	-	-	-	-	5,143	-	350,055
Interest receivable	110,681	-	-	-	-	-	-	110,681
Unbilled receivables	212,516	-	-	-	-	22,485	-	235,001
Due from other funds	1,256,256	-	-	-	-	-	20,544,667	21,800,923
Due from other governmental agencies	27,881,036	-	576,153	-	-	1,237,310	755,352	30,449,851
Inventories	25,122	-	-	-	-	270,384	-	295,506
Recoverable disbursements	2,202	-	-	-	-	5,775	-	7,977
Notes receivable	474,052	-	-	-	-	-	-	474,052
TOTAL ASSETS	\$ 75,267,403	\$ 17,408	\$ 2,249,800	\$ 195,500	\$ 69,905	\$ 1,760,698	\$ 21,300,019	\$ 100,860,733
LIABILITIES AND FUND BALANCES								
LIABILITIES:								
Accounts payable	\$ 4,053,111	\$ 10,716	\$ 427,929	\$ 19,681	\$ 7,412	\$ 153,162	\$ 1,726,807	\$ 6,398,818
Due to other funds	23,206,759	-	-	-	-	-	-	23,206,759
Accrued expenses	1,963,002	-	26,908	491	529	268,702	-	2,259,632
Accrued interest	21,402	-	-	-	-	-	-	21,402
Allowance for adjustments to assessments	300,000	-	-	-	-	-	-	300,000
Other liabilities	3,836,832	-	-	-	-	-	-	3,836,832
Liabilities for unpaid claims	2,615,704	-	-	-	-	-	-	2,615,704
Deferred revenue	17,871,260	-	1,302,955	-	-	-	-	19,174,215
TOTAL LIABILITIES	\$ 53,868,070	\$ 10,716	\$ 1,757,792	\$ 20,172	\$ 7,941	\$ 421,864	\$ 1,726,807	\$ 57,813,362
FUND BALANCES:								
Reserved for:								
Inventories	\$ 25,122	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 25,122
Long-term receivables	1,946,919	-	-	-	-	-	-	1,946,919
Unemployment	17,500	-	-	-	-	-	-	17,500
Program services	294,414	-	-	-	-	-	-	294,414
Unreserved:								
Designated	17,194,946	6,692	492,008	175,328	61,964	1,338,834	19,573,212	38,842,984
Undesignated	1,920,432	-	-	-	-	-	-	1,920,432
TOTAL FUND BALANCES	\$ 21,399,333	\$ 6,692	\$ 492,008	\$ 175,328	\$ 61,964	\$ 1,338,834	\$ 19,573,212	\$ 43,047,371
TOTAL LIABILITIES AND FUND BALANCES	\$ 75,267,403	\$ 17,408	\$ 2,249,800	\$ 195,500	\$ 69,905	\$ 1,760,698	\$ 21,300,019	\$ 100,860,733

The Notes to Financial Statements are an integral part of this statement

COUNTY COMMISSIONERS OF WASHINGTON COUNTY

RECONCILIATION OF FUND BALANCE TO NET ASSETS OF GOVERNMENTAL ACTIVITIES

JUNE 30, 2004

Fund balances governmental funds	\$	43,047,371
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Amounts reported for governmental activities in the statement
of net assets are different because:

Capital assets used in governmental activities are not financial
resources and, therefore, are not reported in the funds:

Fixed assets, net	377,737,348
Construction in progress	4,507,822

Other long-term assets are not available to pay for current-period
expenditures and, therefore, are deferred in the funds:

Investment in capital leases	340,347
Deferred charges	508,147

Long-term liabilities, including bonds payable, are not due and payable
in the current period and, therefore, are not reported in the funds:

Long-term debt	(85,411,862)
Capital leases	(379,669)
Accrued interest	(2,080,144)
Compensated absences and post-retirement benefits	(2,147,746)

Net Assets Governmental Activities	\$	<u>336,121,614</u>
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The Notes to Financial Statements are an integral part of this statement.

COUNTY COMMISSIONERS OF WASHINGTON COUNTY
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2004

	General Fund	Foreign Trade Zone	Community Partnership Fund	Inmate Welfare Fund	Agricultural Education Center	Highway Fund	Capital Projects Fund	Total Government Funds
REVENUES								
General property taxes	\$ 75,496,283	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 75,496,283
Other local taxes	63,770,149	-	-	-	-	-	-	63,770,149
Licenses and permits	1,439,819	-	-	-	-	-	-	1,439,819
Court costs and fines	225,919	-	-	-	-	-	-	225,919
Charges for services	633,558	-	-	-	-	-	-	633,558
Revenue from uses of property	1,272,907	-	-	64,235	29,169	78	-	1,366,389
Reimbursed expenses	800,233	-	-	-	-	471	-	800,704
Miscellaneous revenues	203,074	-	-	249,939	-	193,051	78,962	725,026
Shared taxes and grants	3,834,026	-	2,704,530	-	-	5,613,248	4,706,163	16,857,967
TOTAL REVENUES	\$ 147,675,968	\$ -	\$ 2,704,530	\$ 314,174	\$ 29,169	\$ 5,806,848	\$ 4,785,125	\$ 161,315,814
EXPENDITURES								
Current:								
General government	\$ 14,447,700	\$ 16,613	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 14,464,313
Public safety	18,345,498	-	-	-	-	-	-	18,345,498
Health	1,802,583	-	-	-	-	-	-	1,802,583
Social services	871,721	-	-	-	-	-	-	871,721
Education	81,517,409	-	-	-	-	-	-	81,517,409
Parks, recreation and culture	3,488,675	-	-	-	113,553	-	-	3,602,228
Natural resources	310,667	-	-	-	-	-	-	310,667
Intergovernmental	1,297,381	-	-	-	-	-	-	1,297,381
General operations	1,466,456	-	-	268,880	-	-	-	1,735,336
Community promotion	-	-	2,660,168	-	-	-	-	2,660,168
Highways and streets	-	-	-	-	-	5,995,332	-	5,995,332
Debt Service:								
Debt service	11,511,665	-	-	-	-	-	-	11,511,665
Capital Outlay:								
General government	-	-	-	-	-	-	1,179,836	1,179,836
Public works	-	-	-	-	-	-	2,559,150	2,559,150
Education	-	-	-	-	-	-	4,826,049	4,826,049
Parks and recreation	-	-	-	-	-	-	397,823	397,823
TOTAL EXPENDITURES	\$ 135,059,755	\$ 16,613	\$ 2,660,168	\$ 268,880	\$ 113,553	\$ 5,995,332	\$ 8,962,858	\$ 153,077,159
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	\$ 12,616,213	\$ (16,613)	\$ 44,362	\$ 45,294	\$ (84,384)	\$ (188,484)	\$ (4,177,733)	\$ 8,238,655
OTHER FINANCING SOURCES (USES)								
Transfers in	\$ -	\$ -	\$ 129,879	\$ -	\$ 128,650	\$ -	\$ 4,530,860	\$ 4,789,389
Transfers out	(8,874,379)	-	-	-	-	-	(946,357)	(9,820,736)
Proceeds of capital leases	-	-	-	-	-	-	-	-
Principal amount of new debt for advance refunding	10,429,523	-	-	-	-	-	-	10,429,523
Deposit to escrow fund for advance refunding and repayment of loans	(10,217,645)	-	-	-	-	-	-	(10,217,645)
Proceeds of bond sale	-	-	-	-	-	-	5,400,000	5,400,000
TOTAL OTHER FINANCING SOURCES (USES)	\$ (8,662,501)	\$ -	\$ 129,879	\$ -	\$ 128,650	\$ -	\$ 8,984,503	\$ 580,531
NET CHANGES IN FUND BALANCES	\$ 3,953,712	\$ (16,613)	\$ 174,241	\$ 45,294	\$ 44,266	\$ (188,484)	\$ 4,806,770	\$ 8,819,186
FUND BALANCES - BEGINNING	17,445,621	23,305	317,767	130,034	17,698	1,527,318	14,766,442	34,228,185
FUND BALANCES - ENDING	\$ 21,399,333	\$ 6,692	\$ 492,008	\$ 175,328	\$ 61,964	\$ 1,338,834	\$ 19,573,212	\$ 43,047,371

The Notes to Financial Statements are an integral part of this statement.

COUNTY COMMISSIONERS OF WASHINGTON COUNTY

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES**

YEAR ENDED JUNE 30, 2004

Net change in fund balances in governmental funds \$ 8,819,186

Amounts reported for governmental activities in the statement
of activities are different because:

Governmental funds report capital outlay as expenditures.
However, in the statement of activities, the cost of those assets
is allocated over their estimated useful lives as depreciation expense.
This is the amount by which depreciation exceeded capital outlay in
the current period. (26,518,913)

In the statement of activities, only the gain on the sale of assets is reported,
whereas in the governmental funds, the proceeds from the sale increase
financial resources. Thus, the change in net assets differs from the
change in fund balance by the cost of the assets sold. (105,182)

Bond and capital lease proceeds provide current financial resources to
governmental funds, but issuing debt increases long-term liabilities in the
statement of net assets. Repayment of bond and capital lease principal is
an expenditure in the governmental funds, but the repayments reduce
long-term liabilities in the statement of net assets. This is the amount by
which repayments exceeded proceeds. 2,117,324

In the statement of activities, compensated absences and post-retirement
benefits are measured by the amounts earned during the year. In the
governmental funds, however, expenditures are measured by the amount
of financial resources used. This year, compensated absences and
post-retirement benefits exceeded the amount earned. 75,018

Revenues and expenditures are reported in the statement of activities on
the accrual basis and in the governmental funds when they provide or
use current financial resources. This is the net difference of revenues
and expenditures recognized between the governmental funds and
statement of activities. (248,519)

Change in net assets of governmental activities \$ (15,861,086)

The Notes to Financial Statements are an integral part of this statement.

COUNTY COMMISSIONERS OF WASHINGTON COUNTY

**STATEMENT OF NET ASSETS
PROPRIETARY FUNDS**

June 30, 2004

Business Type Activities - Enterprise Funds						
	Water Quality Fund	Solid Waste Fund	Public Transit Fund	Airport Fund	Black Rock Golf Course	Totals
ASSETS						
Current Assets:						
Cash and short-term investments	\$ 3,579,021	\$ 3,206,408	\$ -	\$ -	\$ 187,853	\$ 6,973,282
Accounts receivable	496,202	321,436	7,486	108,395	720	934,239
Interest receivable	8,238	-	-	-	702	8,940
Unbilled receivables	1,017,066	411,546	586	4,985	-	1,434,183
Due from other governmental agencies	991,771	-	717,291	4,180,091	-	5,889,153
Due from other funds	-	4,562,135	-	-	-	4,562,135
Inventories	131,356	-	66,197	-	69,072	266,625
Budget appropriations paid in advance	1,267	-	-	-	-	1,267
Restricted assets - investments	10,784,665	-	-	-	158,766	10,943,431
Total current assets	<u>\$ 17,009,586</u>	<u>\$ 8,501,525</u>	<u>\$ 791,560</u>	<u>\$ 4,293,471</u>	<u>\$ 417,113</u>	<u>\$ 31,013,255</u>
Noncurrent Assets:						
Bond issuance costs	\$ 186,633	\$ -	\$ -	\$ -	\$ -	\$ 186,633
Projects under construction	1,049,418	370,384	-	10,396,654	-	11,816,456
Property plant and equipment	126,524,148	43,153,149	4,392,519	36,835,939	4,383,903	215,289,658
Accumulated depreciation	(26,967,568)	(10,415,546)	(3,191,364)	(13,394,944)	(1,519,116)	(55,488,538)
Total noncurrent assets	<u>\$ 100,792,631</u>	<u>\$ 33,107,987</u>	<u>\$ 1,201,155</u>	<u>\$ 33,837,649</u>	<u>\$ 2,864,787</u>	<u>\$ 171,804,209</u>
TOTAL ASSETS	<u>\$ 117,802,217</u>	<u>\$ 41,609,512</u>	<u>\$ 1,992,715</u>	<u>\$ 38,131,120</u>	<u>\$ 3,281,900</u>	<u>\$ 202,817,464</u>
LIABILITIES						
Current Liabilities:						
Current maturities of long-term obligations	\$ 3,234,566	\$ 765,501	\$ -	\$ 109,990	\$ -	\$ 4,110,057
Current maturities of capital lease obligations	11,659	373,433	-	14,348	-	399,440
Accounts payable	383,701	263,400	83,872	1,555,924	39,649	2,326,546
Accrued expenses	5,299,811	471,233	77,204	98,358	64,078	6,010,684
Due to other funds	1,122,999	-	248,704	843,718	-	2,215,421
Deferred revenue	216,887	499,020	14,033	170,715	8,700	909,355
Compensated absences	150,695	63,335	35,100	25,469	20,412	295,011
Landfill closure and post-closure costs	-	1,699,573	-	-	-	1,699,573
Other liabilities	4,800	-	-	287,742	-	292,542
Total current liabilities	<u>\$ 10,425,118</u>	<u>\$ 4,135,495</u>	<u>\$ 458,913</u>	<u>\$ 3,106,264</u>	<u>\$ 132,839</u>	<u>\$ 18,258,629</u>
Non Current Liabilities:						
Due to other funds	\$ 240,000	\$ -	\$ -	\$ 700,878	\$ -	\$ 940,878
Deferred revenue	-	-	-	2,400,000	-	2,400,000
Compensated absences	73,000	14,092	15,459	13,500	14,180	130,231
Bonds and long-term debt, net	36,510,097	14,395,377	-	3,044,952	-	53,950,426
Bond premium	149,628	8,348	-	-	-	157,976
Capital lease obligations	24,897	550,344	-	-	-	575,241
Landfill closure and post-closure costs	-	16,651,299	-	-	-	16,651,299
Total noncurrent liabilities	<u>\$ 36,997,622</u>	<u>\$ 31,619,460</u>	<u>\$ 15,459</u>	<u>\$ 6,159,330</u>	<u>\$ 14,180</u>	<u>\$ 74,806,051</u>
TOTAL LIABILITIES	<u>\$ 47,422,740</u>	<u>\$ 35,754,955</u>	<u>\$ 474,372</u>	<u>\$ 9,265,594</u>	<u>\$ 147,019</u>	<u>\$ 93,064,680</u>
NET ASSETS						
Invested in capital assets, net of related debt	\$ 61,597,594	\$ 17,014,984	\$ 1,201,155	\$ 30,668,359	\$ 2,864,787	\$ 113,346,879
Unrestricted	7,859,440	(13,690,184)	316,238	(2,412,824)	32,594	(7,894,736)
Restricted - capital projects	922,443	2,529,757	950	609,991	-	4,063,141
Restricted - John Howard Trust	-	-	-	-	237,500	237,500
TOTAL NET ASSETS	<u>\$ 70,379,477</u>	<u>\$ 5,854,557</u>	<u>\$ 1,518,343</u>	<u>\$ 28,865,526</u>	<u>\$ 3,134,881</u>	<u>\$ 109,752,784</u>

The Notes to Financial Statements are an integral part of this statement.

COUNTY COMMISSIONERS OF WASHINGTON COUNTY

**STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUNDS**

YEAR ENDED JUNE 30, 2004

Business-Type Activities - Enterprise Funds						
	Water Quality Fund	Solid Waste Fund	Public Transit Fund	Airport Fund	Black Rock Golf Course	Total
OPERATING REVENUES						
Charges for services	\$ 10,375,534	\$ 5,632,535	\$ 299,917	\$ 1,281,434	\$ 1,076,322	\$ 18,665,742
Miscellaneous	29,856	16,103	1,304	5,182	4,062	56,507
TOTAL OPERATING REVENUES	\$ 10,405,390	\$ 5,648,638	\$ 301,221	\$ 1,286,616	\$ 1,080,384	\$ 18,722,249
OPERATING EXPENSES						
Salaries and wages	\$ 2,536,822	\$ 1,076,931	\$ 944,765	\$ 440,153	\$ 438,292	\$ 5,436,963
Fringe benefits	951,540	324,968	221,314	127,082	130,458	1,755,362
Utilities	614,059	44,706	20,899	120,864	39,279	839,807
Insurance	97,577	44,828	113,264	33,326	21,713	310,708
Repairs and maintenance	105,850	-	67,915	63,750	72,312	309,827
Supplies	220,783	81,038	27,883	6,017	3,970	339,691
Cost of goods sold	-	-	-	-	173,485	173,485
Contracted services	200,642	1,781,344	81,307	26,959	4,689	2,094,941
Rentals and leases	20,768	2,291	75,399	2,208	64,449	165,115
Other operating	1,064,612	1,561,298	131,447	82,802	173,223	3,013,382
Uncollectible accounts	22,051	6,789	19	18,387	2	47,248
Depreciation	2,248,567	2,483,209	358,286	1,044,061	123,390	6,257,513
TOTAL OPERATING EXPENSES	\$ 8,083,271	\$ 7,407,402	\$ 2,042,498	\$ 1,965,609	\$ 1,245,262	\$ 20,744,042
OPERATING INCOME (LOSS)	\$ 2,322,119	\$ (1,758,764)	\$ (1,741,277)	\$ (678,993)	\$ (164,878)	\$ (2,021,793)
OTHER INCOME (EXPENSE)						
Interest expense	\$ (2,225,493)	\$ (765,996)	\$ -	\$ (217,445)	\$ -	\$ (3,208,934)
Interest income	67,703	4,018	14	8,378	1,562	81,675
Gain (loss) on disposal of assets	(108,268)	(645)	450	3,746	-	(104,717)
TOTAL OTHER INCOME (EXPENSE)	\$ (2,266,058)	\$ (762,623)	\$ 464	\$ (205,321)	\$ 1,562	\$ (3,231,976)
INCOME (LOSS) BEFORE OPERATING TRANSFERS	\$ 56,061	\$ (2,521,387)	\$ (1,740,813)	\$ (884,314)	\$ (163,316)	\$ (5,253,769)
OPERATING TRANSFERS	3,120,000	275,000	417,345	92,150	-	3,904,495
GRANTS FOR OPERATIONS	9,367	-	973,808	15,000	-	998,175
NET INCOME (LOSS) BEFORE CAPITAL TRANSFERS AND GRANTS	\$ 3,185,428	\$ (2,246,387)	\$ (349,660)	\$ (777,164)	\$ (163,316)	\$ (351,099)
CAPITAL TRANSFERS	(92,473)	-	18,450	1,200,875	-	1,126,852
GRANTS FOR CAPITAL PROJECTS	-	-	136,477	6,931,884	87,682	7,156,043
NET INCOME (LOSS)	\$ 3,092,955	\$ (2,246,387)	\$ (194,733)	\$ 7,355,595	\$ (75,634)	\$ 7,931,796
NET ASSETS- BEGINNING	67,286,522	8,100,944	1,713,076	21,509,931	3,210,515	101,820,988
NET ASSETS- ENDING	\$ 70,379,477	\$ 5,854,557	\$ 1,518,343	\$ 28,865,526	\$ 3,134,881	\$ 109,752,784

The Notes to Financial Statements are an integral part of this statement.

COUNTY COMMISSIONERS OF WASHINGTON COUNTY

STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
YEAR ENDED JUNE 30, 2004

	<u>Water Quality</u>	<u>Solid Waste</u>	<u>Public Transit</u>	<u>Airport</u>	<u>Black Rock Golf Course</u>	<u>Total</u>
<u>CASH FLOWS FROM OPERATING ACTIVITIES</u>						
Receipts from customers	\$ 10,876,363	\$ 987,848	\$ 176,931	\$ (2,860,454)	\$ 1,096,823	\$ 10,277,511
Payments to suppliers for goods and services	(2,269,936)	(2,242,498)	(441,552)	1,192,338	(559,922)	(4,321,570)
Payments to employees for services	(3,440,163)	(1,389,968)	(1,148,681)	(263,891)	(547,410)	(6,790,113)
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	\$ 5,166,264	\$ (2,644,618)	\$ (1,413,302)	\$ (1,932,007)	\$ (10,509)	\$ (834,172)
<u>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</u>						
Operating contributions	\$ 3,129,367	\$ 275,000	\$ 1,391,153	\$ 107,150	\$ -	\$ 4,902,670
Increase due to/from other funds	642,999	-	10,872	675,996	-	1,329,867
NET CASH PROVIDED BY NONCAPITAL FINANCING ACTIVITIES	\$ 3,772,366	\$ 275,000	\$ 1,402,025	\$ 783,146	\$ -	\$ 6,232,537
<u>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</u>						
Interest paid on notes and bonds payable	\$ (2,217,311)	\$ (784,619)	\$ -	\$ (227,037)	\$ -	\$ (3,228,967)
Acquisition and construction of capital assets	(872,967)	(581,212)	(144,114)	(7,141,826)	(78,130)	(8,818,249)
Contribution for capital acquisitions	(92,473)	-	154,927	8,132,759	87,682	8,282,895
Principal payments on notes and bonds payable	(23,077,950)	(1,703,137)	-	(923,372)	-	(25,704,459)
Proceeds from issuance of notes and bonds payable	21,330,691	920,603	-	840,000	-	23,091,294
Payments for advanced refunding of bonds	(1,329,200)	(4,279)	-	-	-	(1,333,479)
Payments under capital lease obligations	(11,162)	(290,151)	-	(13,551)	-	(314,864)
Proceeds from sale of capital assets	-	-	450	50,922	-	51,372
NET CASH PROVIDED (USED) BY CAPITAL AND RELATED FINANCING ACTIVITIES	\$ (6,270,372)	\$ (2,442,795)	\$ 11,263	\$ 717,895	\$ 9,552	\$ (7,974,457)
<u>CASH FLOWS FROM INVESTING ACTIVITIES</u>						
Interest on investments	\$ 59,465	\$ 4,018	\$ 14	\$ 8,378	\$ 1,547	\$ 73,422
Purchase of U.S. Government Agency Notes	(10,784,665)	-	-	-	(158,449)	(10,943,114)
Maturities of U.S. Government Agency Notes	-	-	-	-	168,408	168,408
NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES	\$ (10,725,200)	\$ 4,018	\$ 14	\$ 8,378	\$ 11,506	\$ (10,701,284)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	\$ (8,056,942)	\$ (4,808,395)	\$ -	\$ (422,588)	\$ 10,549	\$ (13,277,376)
<u>CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR</u>	11,635,963	8,014,803	-	422,588	177,304	20,250,658
<u>CASH AND CASH EQUIVALENTS AT END OF YEAR</u>	\$ 3,579,021	\$ 3,206,408	\$ -	\$ -	\$ 187,853	\$ 6,973,282
<u>RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY OPERATING ACTIVITIES:</u>						
Operating income (loss)	\$ 2,322,119	\$ (1,758,764)	\$ (1,741,277)	\$ (678,993)	\$ (164,878)	\$ (2,021,793)
Adjustments to reconcile operating income to net cash provided (used) by operating activities:						
Depreciation expense and amortization	2,263,499	2,483,209	358,286	1,044,061	123,390	6,272,445
Changes in assets and liabilities:						
Accounts receivable	29,678	(58,184)	(7,076)	24,404	9,836	(1,342)
Unbilled receivables	166,815	(84,091)	122	7,577	-	90,423
Due to/from other governmental agencies	105,388	(4,559,945)	(107,688)	(4,177,281)	-	(8,739,526)
Inventories	6,480	-	945	-	9,244	16,669
Accounts payable	54,994	83,187	75,636	1,546,651	(16,042)	1,744,426
Accrued expenses	48,199	11,931	17,398	303,344	21,341	402,213
Landfill closure and post-closure cost	-	1,196,609	-	-	-	1,196,609
Deferred revenues	169,092	41,430	(9,648)	(1,770)	6,600	205,704
Net cash provided (used) by operating activities	\$ 5,166,264	\$ (2,644,618)	\$ (1,413,302)	\$ (1,932,007)	\$ (10,509)	\$ (834,172)

The Notes to Financial statements are an integral part of this statement.

COUNTY COMMISSIONERS OF WASHINGTON COUNTY

STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS

JUNE 30, 2004

	<u>Agency Funds</u>	<u>Pension Trust Fund</u>	<u>LOSAP</u>	<u>Private-Purpose Trust Fund</u>	<u>Total</u>
ASSETS					
Cash and short-term investments	\$ 2,071,984	\$ 2,009,838	\$ 74,813	\$ 36,225	\$ 4,192,860
Interest and dividends receivable	-	129,423	5,335	-	134,758
Investments, at fair value					
U.S. Government obligations	-	4,293,757	185,912	36,375	4,516,044
Corporate bonds	-	4,696,040	193,632	-	4,889,672
Corporate stock	-	17,153,273	949,257	-	18,102,530
Municipal obligations	-	99,692	-	-	99,692
Equity funds	-	5,046,105	-	-	5,046,105
Accounts receivable	26,094	-	-	-	26,094
Due from other funds	-	-	-	1,499	1,499
TOTAL ASSETS	<u>\$ 2,098,078</u>	<u>\$ 33,428,128</u>	<u>\$ 1,408,949</u>	<u>\$ 74,099</u>	<u>\$ 37,009,254</u>
LIABILITIES					
Accounts payable	\$ 63,530	\$ -	\$ -	\$ -	\$ 63,530
Unearned income	2,500	-	-	-	2,500
Due to other funds	14,663	-	-	-	14,663
Due to student groups	1,781,834	-	-	-	1,781,834
Undistributed tax proceeds	154,402	-	-	-	154,402
Due to other agencies - NTF	81,149	-	-	-	81,149
TOTAL LIABILITIES	<u>\$ 2,098,078</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,098,078</u>
NET ASSETS					
Reserved for employee pension benefits	\$ -	\$ 33,428,128	\$ -	\$ -	\$ 33,428,128
Reserved for LOSAP	-	-	1,408,949	-	1,408,949
Reserved for scholarships	-	-	-	74,099	74,099
TOTAL NET ASSETS	<u>\$ -</u>	<u>\$ 33,428,128</u>	<u>\$ 1,408,949</u>	<u>\$ 74,099</u>	<u>\$ 34,911,176</u>

The Notes to Financial Statements are an integral part of this statement.

COUNTY COMMISSIONERS OF WASHINGTON COUNTY

**STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FIDUCIARY FUNDS**

YEAR ENDED JUNE 30, 2004

	Pension Trust Fund	LOSAP	Private Purpose Trust Fund	Total
ADDITIONS				
Contributions:				
Employer	\$ 1,321,605	\$ 405,170	\$ -	\$ 1,726,775
Plan members	1,230,000	-	-	1,230,000
Net in-kind	57,040	2,470	-	59,510
Gifts and contributions	-	-	19,162	19,162
TOTAL CONTRIBUTIONS	\$ 2,608,645	\$ 407,640	\$ 19,162	\$ 3,035,447
Investment Income:				
Net appreciation in fair value of investments	\$ 898,769	\$ 24,699	\$ -	\$ 923,468
Interest and dividends	762,069	30,706	1,909	794,684
Gain on sale of investments	1,240,235	66,556	-	1,306,791
TOTAL INVESTMENT INCOME	\$ 2,901,073	\$ 121,961	\$ 1,909	\$ 3,024,943
TOTAL ADDITIONS	\$ 5,509,718	\$ 529,601	\$ 21,071	\$ 6,060,390
DEDUCTIONS				
Benefits	\$ 1,727,717	\$ -	\$ -	\$ 1,727,717
Scholarships	-	-	18,944	18,944
Administrative expenses	147,147	9,964	-	157,111
TOTAL DEDUCTIONS	\$ 1,874,864	\$ 9,964	\$ 18,944	\$ 1,903,772
NET INCREASE (DECREASE) IN ASSETS	\$ 3,634,854	\$ 519,637	\$ 2,127	\$ 4,156,618
NET ASSETS - BEGINNING OF YEAR	29,793,274	889,312	71,972	30,754,558
NET ASSETS - END OF YEAR	\$ 33,428,128	\$ 1,408,949	\$ 74,099	\$ 34,911,176

The Notes to Financial Statements are an integral part of this statement.

COUNTY COMMISSIONERS OF WASHINGTON COUNTY

NOTES TO FINANCIAL STATEMENTS

Note 1. Summary of Significant Accounting Policies

The Financial Reporting Entity:

The primary government is the County Commissioners of Washington County, referred to herein as the County or the County Commissioners. The County is governed by an elected five-member board.

The accompanying financial statements are presented as of June 30, 2004 and for the year then ended and have been prepared in conformity with accounting principles generally accepted in the United States of America applicable to local governments. The Governmental Accounting Standards Board (the GASB) is the standard setting body for establishing governmental accounting and financial reporting principles, which are primarily set forth in the *GASB's Codification of Governmental Accounting and Financial Reporting Standards* (GASB Codification).

Reporting Entity:

The accompanying financial statements comply with the provisions of the GASB Statement No. 14, "The Financial Reporting Entity," in that the financial statements include all organizations, activities, functions and component units for which the County (the primary government) is financially accountable. Financial accountability is defined as the appointment of a voting majority of a legally separate organization's governing body and either (1) the County's ability to impose its will over the organization, or (2) the potential that the organization will provide a financial benefit to or impose a financial burden on the County.

Based on the foregoing, the County's financial reporting entity includes all funds, agencies, boards and commissions that are part of the primary government, and the component units discussed below.

Blended Component Units - The Washington County Public Golf Corporation (Black Rock Golf Course) is governed by a five-member board appointed by the County Commissioners. Although it is legally separate from the County, the Washington County Public Golf Corporation is reported as if it were part of the primary government because its sole purpose is to operate the golf course owned by the County. The Employee's Retirement Plan of Washington County is also reported as a blended component unit.

Discretely Presented Component Unit - The component unit column in the government wide financial statements includes the financial data of the County's other component unit, the Board of Education of Washington County, referred to herein as Board, Board of Education or School System. The Board of Education is elected by the voters of Washington County.

The Board of Education operates the public schools in the County. The Board may not issue debt or levy taxes. The County issues debt and levies taxes to provide capital and operating funds to the Board. The State of Maryland also provides significant capital and operating funds to the Board.

Complete financial statements of the discretely presented individual component unit can be obtained from its administrative office:

Washington County Board of Education
P.O. Box 730
Hagerstown, Maryland 21741

Related Organizations - The County Commissioners are also responsible for appointing the members of the boards of various other organizations, but the County's accountability for these organizations does not extend beyond making the appointments. Several of these other organizations are funded by federal or state government.

COUNTY COMMISSIONERS OF WASHINGTON COUNTY

NOTES TO FINANCIAL STATEMENTS

Note 1. Summary of Significant Accounting Policies (Continued)

Government-Wide and Fund Financial Statements:

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the primary government and its component units. For the most part, the effect on interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. Likewise, the primary government is reported separately from certain legally separate component units for which the primary government is financially accountable.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation:

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers non-grant revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Taxpayer-assessed income, gross receipts, and sales taxes are considered "measurable" when in the hands of intermediary collecting governments and are recognized as revenue at that time. Anticipated refunds of such taxes are recorded as liabilities and reductions of revenue when they are measurable and their validity seems certain.

The County's pension plan's financial statements are prepared using the accrual basis of accounting. Plan member contributions are recognized in the period in which the contributions are due. Employer contributions to each plan are recognized when due and the employer has made a formal commitment to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of each plan.

COUNTY COMMISSIONERS OF WASHINGTON COUNTY

NOTES TO FINANCIAL STATEMENTS

Note 1. Summary of Significant Accounting Policies (Continued)

The government reports the following major governmental funds:

The General Fund is the general operating fund of the County. It is used to account for all financial resources except those required to be accounted for in another fund.

The Foreign Trade Zone Fund is a special revenue fund used to account for all transactions of the Foreign Trade Zone Commission. The Foreign Trade Zone Commission was established to allow a reduction or elimination of import taxes for County businesses within the 1,866 acres of the zone.

The Community Partnership Fund is a special revenue fund used to account for all activities conducted by this department of the County. The Community Partnership's core function is to coordinate services and identify needs of the children, youth and families of Washington County.

The Inmate Welfare Fund is a special revenue fund used to account for commissary activities at the Washington County Detention Center and other inmate related revenues and expenses.

The Agricultural Education Center Fund is a special revenue fund used to account for all transactions of the Agricultural Education Center. The purpose of this Center is to promote agricultural pursuits in Washington County and to educate the general public and members of the agricultural community in all areas regarding agriculture in the County.

The Highway Fund is used to account for activities that relate to the daily maintenance of roads, streets, drainage ditches, storm water management ponds and bridges.

The Capital Projects Fund is used to account for financial resources to be used for the acquisition or construction of major capital facilities. The Capital Projects Fund accounts for all capital improvements, which are financed by bond issues, government grants, and transfers from the General and Special Revenue Funds. Closed projects are transferred to the appropriate fund.

The government reports the following major proprietary funds:

The Water Quality Fund accounts for the activity of the County's sewage treatment plants, sewage pumping stations and collection systems, and the water treatment plants and distribution systems.

The Solid Waste Fund is used to account for activities related to the safe disposal of solid waste, to meet all state, federal, and county regulations and to provide for recycling.

The Public Transit Fund (formerly known as the Public Transportation Fund) accounts for the activities of the public bus transportation system.

The Airport Fund is used to account for the activities at the Hagerstown Regional Airport that serves the air transportation and ancillary needs of the four state region.

The Black Rock Golf Course Fund accounts for activities at the Black Rock Golf Course including an 18 hole golf course, a full service pro shop, and a public restaurant.

COUNTY COMMISSIONERS OF WASHINGTON COUNTY

NOTES TO FINANCIAL STATEMENTS

Note 1. Summary of Significant Accounting Policies (Continued)

Additionally, the government reports the following funds:

The County's Tax Sale Agency Fund is used to account for tax sales proceeds until distribution. Also included in the Agency Fund is contraband confiscated by law enforcement agencies.

The School Activity Fund of the Board of Education is an Agency Fund used in a custodial nature to account for the assets of the various school activities groups.

The Fringe Benefit Plan of the Board of Education is an Agency Fund used to account for the activity related to the Board's IRC Section 125 Cafeteria Plan. Employees of the Board may elect to have amounts withheld from their salaries for dependent care, health insurance premiums, and uncovered medical expenses.

The County's Pension Trust Fund is used to account for the activity related to the Employees' Retirement Plan of Washington County.

The County's Volunteer Length of Service Award Program Fund (LOSAP) is used to account for the activity related to the eligible volunteers' retirement, disability, and death benefits.

The Private-Purpose Trust Fund is used to account for the assets donated to the Board of Education to finance memorial scholarships, which are limited to revenues earned.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The government has elected not to follow subsequent private-sector guidance.

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are payments-in-lieu of taxes and other charges between the government's water and sewer function and various other functions of the government. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Amounts reported as program revenues include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the enterprise funds are charges to customers for sales and services. The Water Quality Fund also recognizes as operating revenue the portion of connection fees intended to recover the cost of connecting new customers to the system. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation of capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the government's policy to use restricted resources first, and then unrestricted resources as they are needed.

COUNTY COMMISSIONERS OF WASHINGTON COUNTY

NOTES TO FINANCIAL STATEMENTS

Note 1. Summary of Significant Accounting Policies (Continued)

Capital Assets:

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$1,000 (amount not rounded). Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business type activities is included as part of the capitalized value of the assets constructed. No interest was capitalized during the year ended June 30, 2004.

Property, plant, and equipment of the primary government, as well as the component units, is depreciated using the straight line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Land Improvements	15-50
Buildings and Improvements	10-40
Facilities	20-100
Vehicles	5-10
Infrastructure	10-100
Machinery and Equipment	5-20
Office Furniture and Equipment	5-10
Treatment Plants	25-100
Computer Equipment	5-10

Long-term Obligations:

In the government-wide financial statements, and proprietary funds in the fund financial statements, long term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund statements of net assets. Bond premiums and discounts are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs after July 1, 2001 are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental funds recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums and discounts on debt issuances are reported as other financing sources (uses). Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

COUNTY COMMISSIONERS OF WASHINGTON COUNTY

NOTES TO FINANCIAL STATEMENTS

Note 1. Summary of Significant Accounting Policies (Continued)

Use of Estimates in the Preparation of Financial Statements:

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires the County to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenue and expenses/expenditures during the reporting period. Actual results could differ from those estimates.

Investments:

Investments are stated at fair value based on quoted market values. Under the terms of repurchase agreements the excess cash from checking accounts is invested in short-term investments. Short-term investments in U.S. Treasury and agency obligations that have a remaining maturity at time of purchase of one year or less, provided that the fair value of those investments is not significantly affected by impairment, are reported at amortized cost, which approximates market value.

Retirement plan investments are reported at fair value. Short-term investments are reported at cost, which approximates fair value. Securities traded on a national or international exchange are valued at the last reported sales price at current exchange rates. Investments that do not have an established market are reported at estimated fair value.

Inventories:

Inventories of the General Fund, Special Revenue Funds and Enterprise Funds consist of expendable supplies held for consumption and are priced at cost using the first-in, first-out method.

Employee Benefit Programs:

The County's benefit program provides substantially all employees with group hospitalization, life insurance, disability income protection and retirement plans. The cost of the retirement plans is accounted for in the General and Special Revenue Funds and in the Enterprise Funds of the County.

There are two employee retirement plans for County employees. The County plans cover all full-time employees other than those employed prior to July 1, 1972 who elected to retain membership in the Maryland State Retirement System. The Board of Education Retirement Plan is the Maryland State Retirement System. The assets of the County plan are held by a trustee.

Retirement plan costs for members of the County Retirement Plan are determined annually on an actuarial basis. Pension costs charged to expense equal the annual required contributions, calculated in accordance with GASB Statement No. 27. The County follows the practice of funding pension costs accrued.

Taxes and County Services:

The County and its separate funds do not pay federal, state or local taxes except social security taxes. Except for certain limited reimbursements of administrative expenses and employee benefits made from other funds, the General Fund is not reimbursed by the other funds for general staff services.

Real Estate and Personal Property Taxes:

Taxes are levied as of July 1 and are delinquent on October 1, unless the taxpayer elects to pay in semi-annual installments. Interest accrues on all overdue taxes but is not recorded until collected. If tax bills are not paid within nine months, legal process is started to place a lien on the delinquent taxpayer's property and to sell it at public auction.

COUNTY COMMISSIONERS OF WASHINGTON COUNTY

NOTES TO FINANCIAL STATEMENTS

Note 1. Summary of Significant Accounting Policies (Continued)

Rate of County Taxes:

Income tax	2.8% of Maryland taxable income (2004 calendar year)
Recordation tax	\$7.60 per \$1,000
Trailer park	15% of gross rentals
Property taxes	\$.948 per \$100 of assessable base

Cash Flows:

For the purposes of the Statement of Cash Flows, the proprietary funds have defined cash equivalents as all highly liquid deposits and other investment instruments that have a maturity of three months or less.

Concentrations of Credit Risk:

The County's receivables consist of amounts due from County residents for property and other taxes, utilities and miscellaneous services and amounts due from the federal government and State of Maryland for grants and shared taxes. The Water Quality Department provides sewage and water treatment for residences and commercial and other entities in the Washington County, Maryland region. The Department extends credit to its customers for sewer and water service charges.

Reserved and Designated Fund Balances:

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

Unrestricted Net Assets:

Governmental activities unrestricted net assets has been reduced by \$45,547,090 in long term debt, resulting in negative unrestricted net assets of \$(26,129,878). This long term debt was incurred by the County's general fund for the purpose of capital asset acquisition for the Board of Education \$(40,008,552) and Hagerstown Community College \$(5,538,538). The capital assets acquired with these bonds are not reflected in the primary government financial statements.

Note 2. Stewardship, Compliance, and Accountability

Budgetary Information:

General governmental revenues and expenditures accounted for in the General, Special Revenue, and Capital Projects Funds are controlled by a formal budgetary accounting system in accordance with legal requirements that govern the County's operations.

Except that a transfer from unappropriated surplus is sometimes budgeted as a revenue item, annual budgets are adopted on a basis consistent with generally accepted accounting principles, for all governmental funds except the capital projects fund, which adopts project-length budgets. Additionally, no budget was prepared for the Foreign Trade Zone Fund, Inmate Welfare Fund, or the Agricultural Education Center Fund. All annual appropriations lapse at the fiscal year end.

COUNTY COMMISSIONERS OF WASHINGTON COUNTY

NOTES TO FINANCIAL STATEMENTS

Note 2. Stewardship, Compliance, and Accountability (Continued)

On or before January 31 of each year, all departments and agencies must have all requests for funding submitted to the Board. By the end of April, the Board reviews and finalizes a proposed budget and holds a public hearing to present the budget. During the month of May, concerns proposed by citizens are discussed and the Board approves the budget. By the end of June, the Department of Budget and Finance prepares an approved Operating Budget document and distributes letters and copies of the budget to the departments and County supported agencies. Following the completion of the budget, a budget transfer request may be completed and must be approved by the department requesting the change. The Director of Finance and the County Administrator must then approve the change. Budget changes greater than \$25,000 must be presented to the Board for approval.

The County budget is comprised of the current Operating Budget and the Capital Improvements Program. The current Operating Budget is based upon estimated revenues and expenditures for operations for the ensuing fiscal year submitted to the Finance Director by the head of each office, department, institution, board, commission and other agency of County government. The Capital Improvement Program is a plan to receive and expend funds for capital projects during the ensuing fiscal year and the next five years. Preparation of the Capital Improvements Program is initiated by the submission of proposed capital projects to the Capital Improvements Program Committee. The committee is charged, by the Board, with the responsibility of reviewing in detail the proposed projects with each concerned department, developing the program in line with determined needs of the County and then presenting the program to the Board. The County also prepares, in conjunction with the capital budget process, a debt affordability analysis that is reviewed by the County's financial advisor. The Board reviews the Operating Budget and Capital Improvements Program in regular public meetings and in a public hearing.

The County's financial software allows all departments to review and print their budget report on a daily basis. On a monthly basis, the Assistant Directors of Budget and Finance review budget reports for all funds. Any areas of concern are brought to the attention of the appropriate department head as well as the Director of Finance. A formal quarterly report is prepared by the Director of Finance and presented to the County Administrator and the Board of County Commissioners to keep them aware of the status of the current year's operations. Multi-year forecasting has played a key role as the County focuses on long-term goals and issues. The multi-year forecasting process helps the County make decisions and allows necessary and corrective action to be taken before problems become more severe. Long-range financial planning is reviewed on a quarterly basis.

Note 3. Cash and Short-Term Investments

County:

The County maintains a cash and investment pool that is available for use by all funds, and is displayed on the Statement of Net Assets as "cash and short-term investments."

Statutes authorize the County to invest in United States government bonds, obligations of the federal government or agencies, savings accounts in Maryland banks, repurchase agreements and the local government investment pool.

Deposits:

The County's deposits must be entirely covered by federal depository insurance, deposit surety bond, or by collateral in the form of pledged securities, according to state statute.

COUNTY COMMISSIONERS OF WASHINGTON COUNTY

NOTES TO FINANCIAL STATEMENTS

Note 3. Cash and Short-Term Investments (Continued)

Deposits: (Continued)

At year end, the carrying amount of the County's deposits was \$3,557,642 and the bank balance was \$3,919,922. At any time, the bank balance is covered by Federal depository insurance and by a \$5,000,000 deposit surety bond issued by XL Capital Assurance, Inc. There were no significant violations of the collateralization requirements during the year ended June 30, 2004.

Investments:

The County's temporary investments are categorized to give an indication of the level of risk assumed by the entity at year end. Category 1 includes investments that are insured or registered or for which the securities are held by the County or its agent in the County's name. Category 2 includes uninsured and unregistered investments for which the securities are held by the seller's agent in the County's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the seller's agent but not in the County's name. The Employees' Retirement Plan of Washington County contractually delegates investment management to investment managers.

	Category			Carrying Amount	Market Value
	1	2	3		
U.S. Treasury Bills	\$ 170,334	\$ -	\$ -	\$ 170,334	\$ 170,334
U.S. State and Local					
Government Series	10,784,665	-	-	10,784,665	10,784,665
Federal Home Loan Bank					
discount notes	11,946,167	-	-	11,946,167	11,946,167
Federal Home Loan Mortgage					
Corporation discount notes	15,059,016	-	-	15,059,016	15,059,016
Federal National Mortgage					
Association discount notes	17,452,182	-	-	17,452,182	17,452,182
	<u>\$ 55,412,364</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 55,412,364</u>	<u>\$ 55,412,364</u>
Investments held by trustee of					
Retirement plan	33,298,705	-	-	33,298,705	33,298,705
Repurchase agreements	<u>-</u>	<u>-</u>	<u>5,857,000</u>	<u>5,857,000</u>	<u>5,857,000</u>
Total Investments	<u>\$ 88,711,069</u>	<u>\$ -</u>	<u>\$ 5,857,000</u>	<u>\$ 94,568,069</u>	<u>\$ 94,568,069</u>

Board of Education:

Maryland State Law prescribes that local government units such as the School System must deposit its cash in banks transacting business in the State of Maryland and that such banks must secure any deposits in excess of Federal Deposit Insurance Corporation insurance levels with collateral whose market value is at least equal to the deposits. At June 30, 2004, the carrying amount of the School System's cash deposits, including fiduciary funds, was \$12,199,132 and the bank balance was \$12,796,207. Of the bank balance, \$693,419 was covered by federal depository insurance and \$12,022,707 was collateralized with securities held by an agent of the pledging financial institution. Additionally, a compensating balance agreement exists with the Board's primary financial institution. This non-interest bearing deposit is maintained in lieu of cash payments for standard bank services. The required average balance totaled \$250,000 at June 30, 2004.

Investments:

Statutes authorize the Board to invest in obligations of the United States government, federal government obligations and repurchase agreements secured by direct government or agency obligations.

COUNTY COMMISSIONERS OF WASHINGTON COUNTY

NOTES TO FINANCIAL STATEMENTS

Note 3. Cash and Short-Term Investments (Continued)

Investments are made in fully secured time deposits and in federal government securities primarily through repurchase agreements without risk of loss due to market conditions. The Board's policy is generally to require delivery of the underlying collateral to a third party custodian.

The Board's investments are categorized to give an indication of the level of risk assumed by the entity at year end. Category 1 includes investments that are insured or registered or for which the securities are held by the Board or its agent in the Board's name. Category 2 includes uninsured investments for which the securities are held as collateral by the bank's trust department or agent in the Board's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the bank's trust department or agent, but not in the Board's name. The carrying amounts, which approximate market values, of the Board's investments, including fiduciary funds, at June 30, 2004 are summarized as follows:

Board of Education

	Category			Carrying
	1	2	3	Amount
Federal Home Loan Bank				
Mortgage Corporation				
discount note	\$ -	\$ 1,035,000	\$ -	\$ 1,035,000
U.S. Treasury Note	-	3,083,000	-	3,083,000
Income Fund of America	-	36,375	-	36,375
Total Investments	<u>\$ -</u>	<u>\$ 4,154,375</u>	<u>\$ -</u>	<u>\$ 4,154,375</u>

Note 4. Receivables

Receivables as of year end for the government's individual major funds, including the applicable allowances for uncollectible accounts are as follows:

	Governmental Activities			
	Adjustments to			
	Government Wide			
	General	Highway	statements	Total
Receivables				
Taxes receivable	\$ 1,086,878	\$ -	\$ (228,794)	\$ 858,084
Accounts receivable	347,300	9,232	-	356,532
Gross receivables	\$ 1,434,178	\$ 9,232	\$ (228,794)	\$ 1,214,616
Less: allowance for				
uncollectibles	645,548	4,089	-	649,637
Net Total Receivables	<u>\$ 788,630</u>	<u>\$ 5,143</u>	<u>\$ (228,794)</u>	<u>\$ 564,979</u>

COUNTY COMMISSIONERS OF WASHINGTON COUNTY

NOTES TO FINANCIAL STATEMENTS

Note 4. Receivables (Continued)

	Business-type Activities					
	Water Quality	Solid Waste	Public Transit	Airport	Black Rock Golf Course	Total
Accounts receivable	\$ 532,309	\$ 337,192	\$ 7,986	\$ 130,780	\$ 720	\$ 1,008,987
Less: allowance for uncollectibles	36,107	15,756	500	22,385	-	74,748
Net Total Receivables	<u>\$ 496,202</u>	<u>\$ 321,436</u>	<u>\$ 7,486</u>	<u>\$ 108,395</u>	<u>\$ 720</u>	<u>\$ 934,239</u>

Governmental funds report deferred revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received, but not yet earned. At the end of the current fiscal year deferred revenue for delinquent property taxes receivable reported in the general fund was \$329,272.

Note 5. Capital Assets

Capital asset activity for the year ended June 30, 2004 was as follows:

Primary Government:

	Balance June 30, 2003	Additions	Deletions	Balance June 30, 2004
Governmental Activities:				
Capital assets, not being depreciated				
Land	\$ 2,433,344	\$ -	\$ -	\$ 2,433,344
Capital assets, being depreciated:				
Land Improvements	\$ 6,560,621	\$ 34,051	\$ (62,065)	\$ 6,532,607
Buildings and Improvements	35,944,567	283,927	(78,000)	36,150,494
Vehicles	8,310,152	410,139	(340,910)	8,379,381
Infrastructure	1,008,248,663	1,236,744	-	1,009,485,407
Machinery and Equipment	7,938,984	314,170	(803,466)	7,449,688
Office Furniture and Equipment	3,324,082	37,549	-	3,361,631
Computer Equipment	5,077,093	522,903	-	5,599,996
Total capital assets being depreciated	<u>\$ 1,075,404,162</u>	<u>\$ 2,839,483</u>	<u>\$ (1,284,441)</u>	<u>\$ 1,076,959,204</u>
Total capital assets	<u>\$ 1,077,837,506</u>	<u>\$ 2,839,483</u>	<u>\$ (1,284,441)</u>	<u>\$ 1,079,392,548</u>
	Balance June 30, 2003	Additions	Deletions	Balance June 30, 2004
Accumulated depreciation for:				
Land Improvements	\$ (2,988,638)	\$ (213,062)	\$ 3,346	\$ (3,198,354)
Buildings and Improvements	(9,836,546)	(1,272,225)	78,000	(11,030,771)
Vehicles	(4,560,932)	(710,073)	325,887	(4,945,118)
Infrastructure	(645,639,028)	(27,840,346)	-	(673,479,374)
Machinery and Equipment	(4,733,597)	(440,721)	772,026	(4,402,292)
Office Furniture and Equipment	(1,798,320)	(208,771)	-	(2,007,091)
Computer Equipment	(1,997,662)	(594,538)	-	(2,592,200)
Total Accumulated Depreciation	<u>\$ (671,554,723)</u>	<u>\$ (31,279,736)</u>	<u>\$ 1,179,259</u>	<u>\$ (701,655,200)</u>
Governmental activities capital assets, net	<u>\$ 406,282,783</u>	<u>\$ (28,440,253)</u>	<u>\$ (105,182)</u>	<u>\$ 377,737,348</u>
Projects under construction	<u>\$ 2,586,482</u>	<u>\$ 4,136,811</u>	<u>\$ (2,215,471)</u>	<u>\$ 4,507,822</u>

COUNTY COMMISSIONERS OF WASHINGTON COUNTY

NOTES TO FINANCIAL STATEMENTS

Note 5. Capital Assets (Continued)

Business-type activities:	Balance June 30, 2003	Additions	Deletions	Balance June 30, 2004
Capital assets, not being depreciated				
Land	\$ 9,997,275	\$ -	\$ -	\$ 9,997,275
Capital assets, being depreciated:				
Land Improvements	\$ 50,473,116	\$ 216,859	\$ -	\$ 50,689,975
Buildings and Improvements	17,992,287	2,583,779	(60,418)	20,515,648
Facilities	71,253,165	216,108	(227,686)	71,241,587
Vehicles	4,465,602	269,617	(121,302)	4,613,917
Machinery and Equipment	7,310,339	801,359	(141,123)	7,970,575
Office Furniture and Equipment	1,218,433	23,104	(194,870)	1,046,667
Treatment Plants	49,083,013	131,001	-	49,214,014
Total capital assets being depreciated	\$ 201,795,955	\$ 4,241,827	\$ (745,399)	\$ 205,292,383
Total capital assets	\$ 211,793,230	\$ 4,241,827	\$ (745,399)	\$ 215,289,658
	Balance June 30, 2003	Additions	Deletions	Balance June 30, 2004
Accumulated depreciation for:				
Land Improvements	\$ (14,380,344)	\$ (2,690,411)	\$ -	\$ (17,070,755)
Buildings and Improvements	(5,338,853)	(501,724)	41,840	(5,798,737)
Facilities	(11,520,900)	(853,576)	127,125	(12,247,351)
Vehicles	(3,346,645)	(510,069)	92,704	(3,764,010)
Machinery and Equipment	(3,461,961)	(621,670)	133,576	(3,950,055)
Office Furniture and Equipment	(681,701)	(160,231)	194,066	(647,866)
Treatment Plants	(11,045,757)	(964,007)	-	(12,009,764)
Total Accumulated Depreciation	\$ (49,776,161)	\$ (6,301,688)	\$ 589,311	\$ (55,488,538)
Business-type activities capital assets, net	\$ 162,017,069	\$ (2,059,861)	\$ (156,088)	\$ 159,801,120
Projects under construction	\$ 4,265,600	\$ 8,040,225	\$ (489,369)	\$ 11,816,456

Depreciation expense was charged to functions/programs of the primary government as follows:

Governmental activities:

General Government	\$ 29,724,532
Public Safety	527,138
Recreation	255,434
Conservation of Natural Resources	4,917
Highway	756,206
Total depreciation expense - governmental activities	<u>\$ 31,268,227</u>

Business-type activities:

Public Transit Fund	\$ 358,286
Airport Fund	1,044,061
Black Rock Golf Course	123,390
Water Quality	2,248,567
Solid Waste	2,483,209
Total depreciation expense - business-type activities	<u>\$ 6,257,513</u>

COUNTY COMMISSIONERS OF WASHINGTON COUNTY

NOTES TO FINANCIAL STATEMENTS

Note 5. Capital Assets (Continued)

Board of Education (Discretely presented component unit):

	Balance June 30, 2003	Additions	Deletions	Balance June 30, 2004
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 2,514,501	\$ -	\$ -	\$ 2,514,501
Capital assets being depreciated:				
Buildings and improvements	\$ 161,878,570	\$ 9,446,898	\$ (27,331)	\$ 171,298,137
Furniture and equipment	25,401,577	2,057,902	(2,270,249)	25,189,230
Equipment under capital leases	260,984	454,813	-	715,797
	<u>\$ 187,541,131</u>	<u>\$ 11,959,613</u>	<u>\$ (2,297,580)</u>	<u>\$ 197,203,164</u>
Accumulated depreciation for:				
Buildings and improvements	\$ (70,461,613)	\$ (3,704,680)	\$ 21,866	\$ (74,144,427)
Furniture and equipment, including equipment under capital leases	(17,043,851)	(1,970,025)	2,189,332	(16,824,544)
	<u>\$ (87,505,464)</u>	<u>\$ (5,674,705)</u>	<u>\$ 2,211,198</u>	<u>\$ (90,968,971)</u>
Governmental activities capital assets, net	<u>\$ 102,550,168</u>	<u>\$ 6,284,908</u>	<u>\$ (86,382)</u>	<u>\$ 108,748,694</u>
Business-type activities:				
Capital assets being depreciated:				
Furniture and equipment	\$ 3,219,294	\$ 63,985	\$ (111,914)	\$ 3,171,365
Accumulated depreciation for:				
Furniture and equipment	(2,414,816)	(155,218)	104,909	(2,465,125)
Business-type activities capital assets, net	<u>\$ 804,478</u>	<u>\$ (91,233)</u>	<u>\$ (7,005)</u>	<u>\$ 706,240</u>
Total	<u>\$ 103,354,646</u>	<u>\$ 6,193,675</u>	<u>\$ (93,387)</u>	<u>\$ 109,454,934</u>
Facilities under construction	<u>\$ 9,398,987</u>	<u>\$ 5,330,869</u>	<u>\$ (9,000,146)</u>	<u>\$ 5,729,710</u>

Depreciation expense was charged to the functions/programs of the Board as follows:

Governmental activities:

Other instructional costs	\$ 1,188,566
Student transpiration services	572,158
Operation of plant	56,282
Depreciation - unallocated	3,857,698
Total depreciation expense - governmental activities	<u>\$ 5,674,704</u>

Business-type activities:

Food services	\$ 142,478
Total depreciation expense - business-type activities	<u>\$ 142,478</u>

COUNTY COMMISSIONERS OF WASHINGTON COUNTY

NOTES TO FINANCIAL STATEMENTS

Note 6. Interfund Receivables and Payables

Outstanding balances between funds are reported as "due to/from other funds" and are the result of the County's central cash management and disbursement system. Other activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are also referred to in the fund statements as "due to/from other funds".

Receivable Fund	Payable Fund	Amount
General	Water quality	\$ 480,000
	Airport	776,256
Solid waste		
	General fund	4,562,135
Capital projects	Water quality	882,999
	Airport	768,340
	Public transit	248,704
	General fund	18,644,624
Total		<u>\$ 26,363,058</u>

Due to/from primary government and component unit:

Receivable Entity	Payable Entity	Amount
Component unit - Board of Education	Primary government - capital projects	<u>\$ 1,056,189</u>

The general fund receivable from the Airport has a June 30, 2004 balance of \$776,256 of which \$761,256 bears interest at a rate of 4.5% and is being paid over a 10 year period and \$15,000 is an interest free loan and is being paid over an 18 month period. All other interfund payables are without interest.

Note 7. Interfund Transactions

During the course of normal operations, the County has numerous transactions between funds. Interfund transactions are generally classified as follows:

- ♦ Operating transfers are reported as "Other Financing Sources (Uses)" in the governmental funds, as "Operating Transfers" or "Capital Transfers" by the recipient fund.

COUNTY COMMISSIONERS OF WASHINGTON COUNTY

NOTES TO FINANCIAL STATEMENTS

Note 7. Interfund Transactions (Continued)

A summary of transfers follows:

<u>Fund</u>	<u>Operating Transfers In</u>	<u>Operating Transfers Out</u>	<u>Capital Transfers In</u>	<u>Capital Transfers Out</u>
General Fund:				
Capital Projects Fund	\$ -	\$ 4,438,387	\$ -	\$ -
Public Transit Fund	-	417,345	-	18,450
Water Quality Fund	-	3,120,000	-	-
Airport Fund	-	92,150	-	254,518
Solid Waste Fund	-	275,000	-	-
Community Partnership	-	129,879	-	-
Agricultural Education Center	-	128,650	-	-
Community Partnership:				
General Fund	129,879	-	-	-
Capital Projects:				
General Fund	4,438,387	-	-	-
Highway Fund	-	-	-	-
Airport Fund	-	-	-	946,357
Water Quality Fund	-	-	92,473	-
Public Transit Fund	-	-	-	-
Water Quality Fund:				
General Fund	3,120,000	-	-	-
Capital Projects Fund	-	-	-	92,473
Solid Waste Fund:				
General Fund	275,000	-	-	-
Public Transit Fund:				
General Fund	417,345	-	18,450	-
Airport Fund:				
General Fund	92,150	-	1,200,875	-
Agricultural Education Center:				
General Fund	128,650	-	-	-
	<u>\$ 8,601,411</u>	<u>\$ 8,601,411</u>	<u>\$ 1,311,798</u>	<u>\$ 1,311,798</u>

COUNTY COMMISSIONERS OF WASHINGTON COUNTY

NOTES TO FINANCIAL STATEMENTS

Note 8. Long-Term and Capital Lease Obligations

The County issues general obligation bonds to provide funds for the acquisition and construction of major capital facilities. General obligation bonds have been issued for both governmental and business-type activities. During the year, general obligation bonds totaling \$5,400,000 were issued for new projects and \$33,231,063 were issued to refund bonds and loans outstanding.

General obligation bonds are direct obligations and pledge the full faith and credit of the County. These bonds generally are issued as 20-year serial bonds with different amounts of principal maturing each year. General obligation bonds and capital lease obligations currently outstanding are as follows:

	Interest Rate	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Governmental Activities:						
Bonds payable						
General obligation bonds	2.0-6.1%	\$ 86,104,738	\$ 5,567,070	\$ 6,869,539	\$ 84,802,269	\$ 6,444,499
Deferred amount on refunding		(391,279)	(135,318)	(222,238)	(304,359)	-
Unamortized bond premium		-	180,126	26,169	153,957	-
Unamortized bond discount		(59,091)	-	(2,955)	(56,136)	-
Total bonds payable		<u>\$ 85,654,368</u>	<u>\$ 5,611,878</u>	<u>\$ 6,670,515</u>	<u>\$ 84,595,731</u>	<u>\$ 6,444,499</u>
Other loans payable						
County transportation bond	2.8-6.2%	\$ 995,203	\$ -	\$ 382,525	\$ 612,678	\$ 404,244
State loan	6.23%	287,394	-	83,941	203,453	56,074
Other loans payable		<u>\$ 1,282,597</u>	<u>\$ -</u>	<u>\$ 466,466</u>	<u>\$ 816,131</u>	<u>\$ 460,318</u>
Total bonds and loans payable		\$ 86,936,965	\$ 5,611,878	\$ 7,136,981	\$ 85,411,862	\$ 6,904,817
Capital lease obligations	4.68-5.41%	<u>560,990</u>	<u>-</u>	<u>181,321</u>	<u>379,669</u>	<u>185,319</u>
Governmental Activity						
Long-term Liabilities		<u>\$ 87,497,955</u>	<u>\$ 5,611,878</u>	<u>\$ 7,318,302</u>	<u>\$ 85,791,531</u>	<u>\$ 7,090,136</u>
Business-type Activities						
Bonds payable						
General obligation bonds	2.0-7.4%	\$ 50,058,403	\$ 787,930	\$ 20,187,890	\$ 30,658,443	\$ 2,747,103
Deferred amount on refunding		-	(1,576,133)	(2,633)	(1,573,500)	-
Unamortized bond premium		-	159,831	1,855	157,976	-
Unamortized bond discount		(387,601)	-	(296,117)	(91,484)	-
Total bonds payable		<u>\$ 49,670,802</u>	<u>\$ (628,372)</u>	<u>\$ 19,890,995</u>	<u>\$ 29,151,435</u>	<u>\$ 2,747,103</u>
Other loans payable						
Maryland Water Quality loans	.04-4.89%	\$ 9,191,541	\$ 19,265,000	\$ 1,280,522	\$ 27,176,019	\$ 1,277,964
State loans	5.5-6.44%	3,238,314	-	923,372	2,314,942	84,990
Amount to be drawn		-	(423,937)	-	(423,937)	-
Other loans payable - net		<u>\$ 12,429,855</u>	<u>\$ 18,841,063</u>	<u>\$ 2,203,894</u>	<u>\$ 29,067,024</u>	<u>\$ 1,362,954</u>
Total bonds and loans payable		\$ 62,100,657	\$ 18,212,691	\$ 22,094,889	\$ 58,218,459	\$ 4,110,057
Capital leases	4.25-5.5%	<u>973,021</u>	<u>316,524</u>	<u>314,864</u>	<u>974,681</u>	<u>399,440</u>
Business-type Activity						
Long-term Liabilities		<u>\$ 63,073,678</u>	<u>\$ 18,529,215</u>	<u>\$ 22,409,753</u>	<u>\$ 59,193,140</u>	<u>\$ 4,509,497</u>
Total Combined Activities						
Long-term Liabilities		<u><u>\$ 150,571,633</u></u>	<u><u>\$ 24,141,093</u></u>	<u><u>\$ 29,728,055</u></u>	<u><u>\$ 144,984,671</u></u>	<u><u>\$ 11,599,633</u></u>

COUNTY COMMISSIONERS OF WASHINGTON COUNTY

NOTES TO FINANCIAL STATEMENTS

Note 8. Long-Term and Capital Lease Obligations (Continued)

Summary of remaining debt service requirements for the years ended June 30 are as follows:

Year	Governmental Activities		Business-type Activities	
	Principal	Interest	Principal	Interest
2005	\$ 6,904,817	\$ 4,048,061	\$ 4,110,057	\$ 2,041,317
2006	6,154,529	3,597,774	4,174,489	1,675,947
2007	5,094,957	3,315,477	4,262,885	1,586,885
2008	5,229,184	3,091,500	4,471,496	1,489,834
2009	5,452,709	2,879,492	4,563,977	1,433,028
2010-2014	28,902,501	10,711,956	19,836,120	7,019,800
2014-2019	19,739,572	4,688,303	13,330,296	8,941,619
2019-2024	8,140,131	932,613	5,400,084	1,945,679
	<u>\$ 85,618,400</u>	<u>\$ 33,265,176</u>	<u>\$ 60,149,404</u>	<u>\$ 26,134,109</u>
Less:				
Deferred amount on refunding	(304,359)		(1,573,500)	
Unamortized discount	(56,136)		(91,484)	
Unamortized premium	153,957		157,976	
Amount to be drawn	-		(423,937)	
	<u>\$ 85,411,862</u>		<u>\$ 58,218,459</u>	

On occasion, the State of Maryland Department of Transportation issues bonds and distributes the proceeds to the County for highway construction. Such distributions are being repaid plus interest by annual deductions made by the State from the County's distributable share of State motor vehicle and gasoline taxes. The unpaid balance is \$612,678 at June 30, 2004.

From time to time, the County has issued Industrial Revenue Bonds to provide financial assistance to private-sector entities for the acquisition and construction of industrial and commercial facilities deemed to be in the public interest. The bonds are secured by the property financed and are payable solely from payments received in the underlying mortgage loans. Upon repayment of the bonds, ownership of the acquired facilities transfers to the private-sector entity served by the bond issuance. Neither the County, the State, nor any political subdivision thereof is obligated in any manner for repayment of the bonds. In accordance with the governmental accounting standards the bonds are not reported as liabilities in the accompanying financial statements. As of June 30, 2004 there were Industrial Revenue Bonds outstanding with an aggregate principal amount payable of \$45,576,644.

The County Commissioners have received bonding authority from the State Legislature to issue public facilities bonds in the amount of approximately \$82,206,750 for the purpose of financing various capital projects. Of this amount, \$20,000,000 is restricted for the Airport and \$5,000,000 is restricted for agricultural preservation.

COUNTY COMMISSIONERS OF WASHINGTON COUNTY

NOTES TO FINANCIAL STATEMENTS

Note 8. Long-Term and Capital Lease Obligations (Continued)

The County has various capital lease agreements for communications and heavy equipment.

The future minimum payments under these agreements are as follows:

2005	\$ 203,827
2006	203,827
Total minimum lease payments	<u>\$ 407,654</u>
Less amounts representing interest	<u>27,985</u>
Present value of net minimum lease payments	<u><u>\$ 379,669</u></u>

On June 29, 2001, the Airport Fund entered into a capital lease agreement for equipment. The lease calls for annual lease payments of \$15,165. The term of the lease is for five years, expiring June 29, 2005. The future minimum payments under this agreement are as follows:

2005	\$ 15,165
Less amounts representing interest	817
Present value of net minimum lease payments	<u><u>\$ 14,348</u></u>

On June 18, 2001, the Solid Waste Fund entered into a capital lease agreement for equipment. The lease calls for annual lease payments of \$172,174. The term of the lease is for six years, expiring June 18, 2006. On August 15, 2002, the Solid Waste Fund entered into a capital lease agreement for equipment. The lease calls for annual lease payments of \$83,349. The term of the lease is for five years, expiring August 15, 2006. On September 10, 2002, the Solid Waste Fund entered into a capital lease agreement for equipment. The lease calls for annual lease payments of \$78,180. The term of the lease is for five years, expiring September 10, 2007. On May 28, 2004, the Solid Waste fund entered into a capital lease agreement for equipment. The lease calls for annual lease payments of \$68,681. The term of the lease is for five years, expiring July 15, 2008. The future minimum payments under these agreements are as follows:

2005	\$ 402,385
2006	230,212
2007	230,210
2008	68,682
2009	68,681
Total minimum lease payments	<u>\$ 1,000,170</u>
Less amounts representing interest	<u>76,392</u>
Present value of net minimum lease payments	<u><u>\$ 923,778</u></u>

COUNTY COMMISSIONERS OF WASHINGTON COUNTY

NOTES TO FINANCIAL STATEMENTS

Note 8. Long-Term and Capital Lease Obligations (Continued)

On August 15, 2002, the Water Quality Fund entered into a capital lease agreement for equipment. The lease calls for annual lease payments of \$13,285. The term of the lease is for five years, expiring August 15, 2006. The future minimum payments under this agreement are as follows:

2005	\$ 13,285
2006	13,285
2007	<u>13,285</u>
Total minimum lease payments	\$ 39,855
Less amounts representing interest	<u>3,300</u>
Present value of net minimum lease payments	<u><u>\$ 36,555</u></u>

Board of Education:

The Board of Education has various capital lease agreements for certain data processing and communications equipment. The future minimum payments under these agreements are as follows:

2005	\$ 141,101
2006	102,537
2007	102,537
2008	102,586
2009	<u>19,613</u>
Total minimum lease payments	\$ 468,374
Less amounts representing interest	<u>38,811</u>
Present value of net minimum lease payments	<u><u>\$ 429,563</u></u>

Current Refundings:

In October 2003, the County issued \$19,750,000 of general obligation refunding bonds, \$5,400,000 of which was for new projects and \$14,350,000 was to provide resources to refund \$13,363,556 of general obligation bonds and \$838,250 of loans. This new issue paid off \$10,082,334 of bonds in the General Fund from the 1993 and 1994 bond series in January 2004. The new issue also paid off \$897,666 of bonds in the Solid Waste Fund from the 1993 and 1994 bond series in January 2004, \$2,383,556 of bonds in the Water Quality fund in January 2004 and \$838,250 of loans in the Airport Fund in November 2003. As a result, the refunded bonds are considered to be defeased and the liability has been removed from the governmental activities and business type activities columns of the statement of net assets.

The reacquisition price exceeded the net carrying amount of the old debt by \$205,394. The amount is being netted against the new debt and amortized over the remaining life of the refunded debt, which is shorter than the life of the new debt issued. This current refunding was undertaken to reduce total debt service payments over the next 20 years by \$1,177,426 and resulted in an economic gain of \$1,084,828.

COUNTY COMMISSIONERS OF WASHINGTON COUNTY

NOTES TO FINANCIAL STATEMENTS

Note 8. Long-Term and Capital Lease Obligations (Continued)

Advance Refundings:

On May 28, 2004, the County issued \$8,091,063 of Maryland Water Quality refunding bonds to provide resources to purchase U.S. Government State and Local Government Series securities that were placed in an irrevocable trust for the purpose of generating resources for all future debt service payments for \$6,867,287 of general obligation bonds in the Water Quality Fund from the 1999 Taxable Water and Sewer bond series. As a result, the refunded bonds are considered to be defeased and the liability has been removed from the governmental activities and business type activities columns of the statement of net assets.

The reacquisition price exceeded the net carrying amount of the old debt by \$1,223,776. The amount is being netted against the new debt and amortized over the remaining life of the refunded debt, which is shorter than the life of the new debt issued. This current refunding was undertaken to reduce total debt service payments over the next 20 years by \$4,017,111 and resulted in an economic gain of \$3,646,608.

On May 28, 2004, the County also issued \$10,750,000 of Maryland Water Quality refunding bonds to provide resources to purchase U.S. Government State and Local Government Series securities that were placed in an irrevocable trust for the purpose of generating resources for all future debt service payments for \$10,231,819 of general obligation bonds in the Water Quality Fund from the 1993 Series F bond. As a result, the refunded bonds are considered to be defeased and the liability has been removed from the governmental activities and business type activities columns of the statement of net assets.

The reacquisition price exceeded the net carrying amount of the old debt by \$282,281. The amount is being netted against the new debt and amortized over the remaining life of the refunded debt, which is shorter than the life of the new debt issued. This current refunding was undertaken to reduce total debt service payments over the next 11 years by \$2,019,239 and resulted in an economic gain of \$3,120,032.

In prior years, the County has partially defeased certain bonds by placing the proceeds of new bonds in an irrevocable trust to provide for certain future debt service payments on the old bonds. Accordingly, the trust account assets and the liability for the partially defeased bonds are not included in the County's financial statements. As of June 30, 2004, \$22,510,000 of long-term obligations outstanding are considered defeased.

Note 9. Lease Agreements

County:

The Washington County Golf Corporation entered into a lease for golf carts in March 2003. The agreement calls for lease payments of \$8,056 payable from April through November of each year. The lease term is for three years commencing on March, 15, 2003. Total lease payments for the year ended June 30, 2004 were \$64,449.

The County has entered into a lease as the lessor with a local manufacturing company whereby the County has obtained low interest financing to construct the leased facility. This debt is reflected in the General Fund. The County will transfer title to the property to the Company at the end of the 25 year lease term, which expires in July 2007. Lease payments of \$138,824 per year for the term of the lease are designed to cover the debt service on the loan. The investment in capital lease at June 30, 2004 is \$340,347.

COUNTY COMMISSIONERS OF WASHINGTON COUNTY

NOTES TO FINANCIAL STATEMENTS

Note 9. Lease Agreements (Continued)

Airport:

During 2004, the County entered into a lease agreement whereby the lessee constructed a building and improvements on land owned by the Airport. The total building and improvements was \$2,500,000, which has been capitalized as an asset in the Airport fund with an estimated useful life of 40 years. The terms of the agreement allow that the lessee has use of the property for a period of 25 years, with no additional payments due. The agreement allows for an option for the lessee to continue the lease past the 25 year term at a rental payment of the fair market value at that time. Deferred revenue in the amount of \$2,500,000 was recorded in the Airport fund at the inception of the lease, and will be recognized as rental income over the 25 year term of the lease.

Note 10. Special Assessment Debt

A special taxing district known as the Barkdoll Tract Special Taxing District (Prime Retail) was created by the County. Special obligation bonds in the amount of \$3,100,000, \$1,517,000 and \$2,454,000 were issued in June 1998, November 1998 and April 2000, respectively. The County is in no way liable for repayment of the bonds and is only acting as an agent for the property owners in the special taxing district in collecting the special taxes and forwarding collection to bondholders.

Annual debt service requirements to maturity for special assessment bonds are as follows:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>
2005	142,000	452,690
2006	152,000	442,750
2007	162,000	432,110
2008	174,000	420,770
2009	186,000	408,590
2010-2014	1,146,000	1,828,400
2015-2019	1,614,000	1,369,330
2020-2024	2,311,000	714,840
2025-2029	580,000	20,300
	<u>\$ 6,467,000</u>	<u>\$ 6,089,780</u>

Note 11. Unused Vacation and Sick Leave

County:

The County accrues accumulated unpaid vacation and sick leave and associated employee-related costs when earned or estimated to be earned by the employee. The accrual of vacation leave is based upon individual salary rates in effect as of June 30 and is capped at 25 days. The accrual of sick leave is based on payment upon retirement at a rate of \$10 per day for each unused sick leave day up to a total of 130 days. Total unpaid vacation and sick leave accrued at June 30, 2004 was \$1,365,419 and \$500,023, respectively. Unused vacation and sick leave will be liquidated by the respective government and enterprise funds where the current employee costs are accounted for.

COUNTY COMMISSIONERS OF WASHINGTON COUNTY

NOTES TO FINANCIAL STATEMENTS

Note 11. Unused Vacation and Sick Leave (Continued)

Board of Education:

The School System accrues accumulated unpaid vacation and sick leave and associated employee-related costs when earned or estimated to be earned by the employee. The accrual of vacation leave is based upon individual salary rates in effect as of June 30. The accrual of sick leave is based on payment upon retirement at a rate of \$25 per day for each unused sick leave day up to a total of 200 days and \$35 per day for additional accumulated sick leave beyond 200 days. Sick leave is estimated to be earned once an employee has obtained 25 years of service or 55 years of age. Total unpaid vacation and sick leave accrued at June 30, 2004 was \$1,444,703 and \$2,710,191, respectively. Total employee related costs associated and accrued with these compensated absences amounted to \$317,849 at June 30, 2004. For governmental funds, \$197,496 is considered payable with current sources and are included in accrued liabilities. The remaining amounts are estimated to be used in subsequent fiscal years.

Note 12. Retirement Plans

County Defined Benefit Pension Plan:

Plan Description. The County Commissioners of Washington County Employees Retirement Plan is a single-employer defined benefit pension plan. The Plan provides retirement benefits to plan members. Cost-of-living adjustments are provided at the discretion of the County Commissioners. Annual reporting for the Plan is presented only in the County's fiduciary funds financial statements.

Funding Policy. The contribution requirements of plan members and the County is established and may be amended by the County Commissioners. Plan members are required to contribute 5.5% of their annual covered salary, except for uniformed sworn officers of the Sheriff's Department, who contribute 6%.

All information that follows for the County plan is as July 1, 2003, which is the latest actuarial report available.

Membership of the Plan. The membership consisted of the following at July 1, 2003, the date of the latest actuarial valuation:

Retirees and beneficiaries receiving benefits	105
Terminated plan members entitled to but not yet receiving benefits	37
Active plan members	632
	<u>774</u>

Annual Pension Cost and Net Pension Obligation. The County's annual pension cost and net pension obligation for the year ended June 30, 2003, were as follows:

Annual required contribution	\$ 2,019,189
Interest on Net Pension Obligation	(399,312)
Adjustment to annual required contribution	565,709
Annual pension cost	<u>\$ 2,185,586</u>
Contributions	1,230,000
Increase (decrease) in net pension obligation	<u>\$ 955,586</u>
Net pension obligation (excess) beginning of year	(4,697,786)
Net pension obligation (excess) end of year	<u><u>\$ (3,742,200)</u></u>

COUNTY COMMISSIONERS OF WASHINGTON COUNTY

NOTES TO FINANCIAL STATEMENTS

Note 12. Retirement Plans (Continued)

The annual required contribution for the current year was determined as part of the July 1, 2002 actuarial valuation using the projected unit credit actuarial cost method. The actuarial assumptions included (a) 8.5% investment rate of return (net of administrative expenses) and (b) projected salary increases of 5.5% per year. The assumptions did not include postretirement benefit increases. The actuarial value of assets was determined by the market value of investments. The unfunded actuarial accrued liability is being amortized at a level dollar over 25 years. The effect of an unfunded actuarial accrued liability (funding excess) is amortized immediately.

Trend Information

<u>Fiscal Year Ending</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage Of APC Contributed</u>	<u>Net Pension Obligation</u>
6/30/03	\$ -	0.0%	\$ -
6/30/02	\$ 1,498,374	92.2%	\$ (4,697,786)
6/30/01	\$ 134,561	100.0%	\$ (4,815,160)

Board of Education:

The employees of the School System are covered by one of the following pension plans affiliated with the State Retirement and Pension System of Maryland, and agent multiple-employer public employee retirement systems administered by the Maryland State Retirement Agency:

- ◆ The Teachers' Retirement System of the State of Maryland
- ◆ The Employees' Retirement System of the State of Maryland
- ◆ The Pension System for Teachers of the State of Maryland, or
- ◆ The Pension System for Employees of the State of Maryland

During the 1979 legislative session, the Maryland General Assembly created, effective January 1, 1980, the "Pension System for Teachers of the State of Maryland" and the "Pension System for Employees of the State of Maryland." Prior to this date, all teachers and related positions were required to be members of the "Teachers' Retirement System of the State of Maryland" and classified positions were members of the "Employees' Retirement System of the State of Maryland." All school system employees who were members of the "Retirement System" may remain in that System or may elect to join the "Pension System." All teachers hired within the State after December 31, 1979 must join the "Pension System for Teachers." All classified employees hired within the State after December 31, 1999 must join the "Pension System for Employees." The Teachers' Retirement System" and the "Pension System for Employees" cover those employees not covered by the teachers' plans. These employees are principally custodial, maintenance and food service employees.

These pension plans provide pension benefits and death and disability benefits. A member may retire after 25 years of service from the Retirement System and as early as age 55 and 15 years of service for the Pension System. Benefits generally vest after 5 years of service. The State Retirement Agency issues a comprehensive annual financial report for the State Retirement and Pension System of Maryland. That report may be obtained by writing to State Retirement and Pension System of Maryland, 301 West Preston Street, Baltimore, Maryland 21201-2363, or by calling 1-410-767-4030, or by e-mail at sra@sra.state.md.us.

COUNTY COMMISSIONERS OF WASHINGTON COUNTY

NOTES TO FINANCIAL STATEMENTS

Note 12. Retirement Plans (Continued)

Both the "Retirement System" and the "Pension System" for teachers and classified employees are jointly contributory. Under the "Retirement System" employees contribute 4% - 7% of their total gross salary, and under the "Pension System" employees contribute 2% of their gross salary. Effective, July 1, 1980, in accordance with the law governing the Systems, all benefits of the Systems are funded in advance. Annually appropriated employer contribution rates for retirement benefits are determined using the entry age normal cost method. The method produces an employer contribution rate consisting of (1) an amount for normal cost (the estimated amount necessary to finance benefits earned by employees during the current service year), and (2) the amount for amortization of the unfunded actuarial accrued liability.

Washington County School System contributions totaling \$620,543 or 5.01% of covered payroll, and contributions by the State of Maryland on behalf of the School System totaling \$8,222,574 or 9.35% of covered payroll for fiscal year 2004 were made in accordance with actuarially determined contribution requirements based on an actuarial valuation performed as of June 30, 2003. Significant actuarial assumptions used include (a) a rate of return on the investment of present and future assets of 7.5% percent per year compounded annually, (b) projected salary increases of 4.0 percent per year compounded annually, attributable to inflation, (c) additional projected salary increases ranging from 0.00 percent to 11.96 percent per year, attributable to seniority/merit, (d) post-retirement benefit increases ranging from 3 percent to 4 percent per year depending on the system, (e) rates of mortality, termination of service, disablement and retirement are based on actual experience during the period from 1981 to 1996, and (f) the aggregate active member payroll is assumed to increase by 4 percent annually.

These assumptions varied slightly from Assumptions in prior years.

The actuarial value of assets was determined using a simplified five-year moving average. Under this method, the year end actuarial asset value equals one-fifth of the current fiscal year end fair value, plus four-fifths of the expected market value. The unfunded actuarial valuation accrued liability which existed as of June 30, 2000 actuarial valuation is being amortized over the remaining 18-year period to June 30, 2020. Each new layer of unfunded actuarial accrued liability arising subsequent to June 30, 2000 is being amortized over a twenty-five year period. A three-year trend of the School System's annual pension cost is as follows:

Fiscal Year Ending June 30,	Total Annual Pension Cost (APC)	APC Contributed By School System	APC Contributed By State	Percentage of APC Contributed	Net Pension Obligation
2002	\$7,928,159	\$465,080	\$7,463,079	100%	\$ -
2003	\$8,250,473	\$528,396	\$7,722,077	100%	\$ -
2004	\$8,843,117	\$620,543	\$8,222,574,	100%	\$ -

The contributions made by the State of Maryland on behalf of the School System were recognized as both revenue and expenditures in the General Fund as required by Government Accounting Standards Board Statement No. 24.

COUNTY COMMISSIONERS OF WASHINGTON COUNTY

NOTES TO FINANCIAL STATEMENTS

Note 13. Risk Management

County:

The County is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The County purchases commercial insurance for claims in excess of deductible amounts for all risks of loss, except for employee health and workers compensation. Settlements have not exceeded insurance coverages during the past three fiscal years.

The County Commissioners have established a self-insurance plan for health benefits to its employees, retirees and to other governmental and non-profit agencies. Budgeted amounts are charged to each fund, and premiums are charged to retirees and other governmental and non-profit agencies for their share of the costs, which are intended to cover the estimated costs of claims and administrative expenses. Contributions from employees, retirees and other governmental non-profit agencies are offset against budget amounts charged in the related fund. Under this plan the County's general fund bears all risk of loss.

The County has established claims liabilities based on estimates of the ultimate cost of settling the claims (including future claim adjustment expenses) that have been reported but not settled, and of claims that have been incurred but not reported. The length of time for which such costs must be estimated varies depending on the coverage involved.

Because actual claims costs depend on such complex factors as inflation, changes in doctrines of legal liability, and damage awards, the process used in computing claims liabilities does not necessarily result in an exact amount. Claims liabilities are recomputed periodically using a variety of actuarial and statistical techniques to produce current estimates that reflect recent settlements, claim frequency, and other economic and social factors. A provision for inflation in the calculation of estimated future claim costs is implicit in the calculation because reliance is placed both on actual historical data that reflect past inflation and on other factors that are considered to be appropriate modifiers of past experience. Adjustments to claims liabilities are charged or credited to expense in the periods in which they are made.

The liability for estimated claims was determined to be \$1,845,704 which is reflected in the accompanying financial statements at June 30, 2004. Changes in the claims liability were as follows:

	Years ended June 30,	
	2004	2003
Liability at beginning of year	\$ 1,694,129	\$ 1,700,000
Claims and changes in estimates during the year	5,858,061	4,553,843
Claims and administrative costs paid	(5,706,486)	(4,559,714)
Liability at end of year	<u>\$ 1,845,704</u>	<u>\$ 1,694,129</u>

The County uses a third party administrator to process and pay claims. The County has purchased a stop-loss insurance policy. Under this policy the County was liable for the first \$6.1 million of claims paid in the current fiscal year. Any claims in excess of this amount are to be paid by the insurance company under the stop-loss policy.

COUNTY COMMISSIONERS OF WASHINGTON COUNTY

NOTES TO FINANCIAL STATEMENTS

Note 13. Risk Management (Continued)

The County Commissioners have also established a self-insurance plan for Workers' Compensation claims whereby the County is liable for the first \$350,000 per occurrence. As required by the State of Maryland, \$175,000 in U.S. Treasury Notes is held by the State Workers' Compensation Commission and is included in investments on the balance sheet. The County extends coverage under this plan to the employees of other governmental and nonprofit agencies. These agencies are charged a "premium", however the County bears the risk of loss. The liability for estimated claims was determined to be \$770,000, which is reflected in the accompanying financial statements at June 30, 2004. Changes in the claims liability were as follows:

	Years ended June 30,	
	2004	2003
Liability at beginning of year	\$ 575,000	\$ 550,000
Claims and changes in estimates during the year	913,044	520,896
Claims and administrative costs paid	(718,044)	(495,896)
Liability at end of year	<u>\$ 770,000</u>	<u>\$ 575,000</u>

Board of Education:

The School System is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; personal injury; and natural disaster. The School System is one of fifteen Boards of Education within the State of Maryland belonging to the Maryland Association of Boards of Education Group Insurance Pool (the Pool), a public entity risk pool organized as a trust. The School System pays an annual premium to the pool for its property, liability, and automobile coverage. Such premiums are actuarially calculated for the pool as a whole based on loss data and are allocated to members based on student enrollment and number and type of vehicles as well as experience modification factors. The Pool is reinsured on a claims-made basis for legal liability covering claims aggregating \$3 million per district per year.

Additionally, the School System is one of eleven Boards of Education within the State of Maryland belonging to the Maryland Association of Boards of Education Workers' Compensation Group Self-Insurance Fund (the Fund). This fund was established to provide worker's compensation indemnity and medical benefits coverage for participating school boards. The fund is operated under regulations promulgated by the State's Workers' Compensation Commission (COMAR 14.09.02). Each Fund participant pays an annual premium calculated on its payroll according to the standard classifications, with an experience modification applied. Although premiums billed to the Fund members are determined on an actuarial basis, ultimate liability for claims remains with the respective members and accordingly, the insurance risks are not transferred to the Fund. Six months following the end of the Fund's fiscal year, the Fund's trustees declare unneeded funds as surplus and distribute 50% of the declared surplus as dividends to the Fund members. This dividend distribution is made no sooner than one year after the close of that fiscal year. Members dedicate the remaining 50% of the surplus each year to a surplus fund until it reaches 100% net annual premium. The Fund carries an excess insurance policy providing specific excess and employer liability protection coverage, thus reducing the potential of assessment against Fund members. The Fund provides coverage for up to a maximum of \$250,000 for each worker's compensation claim.

Settled claims from these risks have not exceeded the planned coverage during any of the past three years.

COUNTY COMMISSIONERS OF WASHINGTON COUNTY

NOTES TO FINANCIAL STATEMENTS

Note 13. Risk Management (Continued)

The School System also offers a program of self-insured health and dental benefits to its employees and retirees. Charges are made to other Funds, employees and retirees for their respective share of the costs in amounts planned to match the estimated claims, the cost of insurance premiums for coverage in excess of self-insured amounts and the administrative costs in providing the program. Such costs are also offset by interest income earned from investing receipts until they are paid out in the form of claims or expenses. Administrative costs directly related to the program are borne by the Self-Insurance Fund.

In accordance with the Governmental Accounting Standards Board's Statement No. 10 "Accounting and Financial Reporting for Risk Financing and Related Insurance Issues," charges to other funds must be accounted for as revenue by an internal service fund and expenditures/expenses by the other funds. The amount of these charges was \$14,921,016 for the year ended June 30, 2004.

The Self-Insurance Fund's accrued liabilities include an estimate of the amount to be paid for self-insured claims incurred prior to June 30, 2004. This estimate is prepared based upon the School System's experience and other relevant facts. Changes in the Fund's claims liability amount were as follows:

	Years ended June 30,	
	2004	2003
Liability at beginning of year	\$ 2,546,544	\$ 2,522,840
Claims and changes in estimates during the year	16,230,684	15,251,653
Claims paid	(16,431,101)	(15,227,949)
Liability at end of year	<u>\$ 2,346,127</u>	<u>\$ 2,546,544</u>

Note 14. Deferred Compensation Plan

The County offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457 and administered by a third party. The plan, available to all County employees, permits them to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency. The deferred compensation plan assets are held in trust for the exclusive benefit of the plan participants. Therefore, the plan assets are not presented in the financial statements.

Note 15. Agency Fund Deferred Tax Sales Proceeds

Tax sales proceeds are accounted for in the Agency Fund. Three years after the date of a tax sale, the net proceeds can be transferred to the General Fund. For seven years thereafter, property owners or their heirs may petition the Court for the net proceeds of the tax sale, and the proceeds revert back to the Agency Fund. At the end of the seven-year period, the proceeds are recognized as income to the County. Proceeds not transferred to the General Fund are accounted for as deferred tax sales proceeds, and included as deferred revenue on the balance sheet.

Note 16. Segment Information

The County has entered into loan agreements with the Maryland Water Quality Financing Administration. The loans are backed by the full faith and credit and taxing power of the County, however the source of payment of the principal and interest of the loans is the sewer user charges and pretreatment facility user charges. The user charges are accounted for in the Water Quality Fund. Summarized financial information for the Sewer and Pretreatment operations is presented below. The Water Quality Department operates the County's sewage treatment plant, sewage pumping station, collection systems and pretreatment facility.

COUNTY COMMISSIONERS OF WASHINGTON COUNTY

NOTES TO FINANCIAL STATEMENTS

Note 16. Segment Information (Continued)

	Sewer Department	Pretreatment Department
CONDENSED STATEMENT OF NET ASSETS		
Assets		
Current assets	\$ 10,345,563	\$ 1,403,990
Noncurrent assets	86,263,144	7,469,505
Total assets	<u>\$ 96,608,707</u>	<u>\$ 8,873,495</u>
Liabilities		
Interfund payables	\$ 480,000	\$ -
Other current liabilities	6,241,065	1,395,144
Noncurrent liabilities	25,521,680	7,907,703
Total liabilities	<u>\$ 32,242,745</u>	<u>\$ 9,302,847</u>
Net assets		
Invested in capital assets, net of related debt	\$ 57,593,269	\$ (949,116)
Unrestricted	6,107,530	519,764
Restricted - capital projects	665,163	-
Total net assets	<u><u>\$ 64,365,962</u></u>	<u><u>\$ (429,352)</u></u>
CONDENSED STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS		
Operating revenues	\$ 7,564,402	\$ 1,848,098
Depreciation expense	(1,649,709)	(195,421)
Other operating expenses	(4,690,928)	(628,372)
Operating income	<u>\$ 1,223,765</u>	<u>\$ 1,024,305</u>
Nonoperating revenues (expenses):		
Interest income	\$ 49,215	\$ 7,550
Interest expense	(1,645,282)	(382,073)
(Loss) on disposal of assets	(102,823)	-
Operating transfers	2,412,600	350,000
Change in net assets	1,937,475	999,782
Beginning net assets	62,428,487	(1,429,134)
Ending net assets	<u><u>\$ 64,365,962</u></u>	<u><u>\$ (429,352)</u></u>
CONDENSED STATEMENT OF CASH FLOWS		
Net cash provided (used) by:		
Operating activities	\$ 2,717,523	\$ 1,298,579
Noncapital financing activities	2,412,600	350,000
Capital and related financing activities	(4,863,096)	(638,174)
Investing activities	(9,608,345)	7,550
Net increase (decrease)	(9,341,318)	1,017,955
Beginning cash and cash equivalents	8,827,243	251,728
Ending cash and cash equivalents	<u><u>\$ (514,075)</u></u>	<u><u>\$ 1,269,683</u></u>

COUNTY COMMISSIONERS OF WASHINGTON COUNTY

NOTES TO FINANCIAL STATEMENTS

Note 17. Closure and Postclosure Care Cost

State and federal laws and regulations require the County to place a final cover on its landfills when they stop accepting waste. The County is also required to perform certain maintenance and monitoring functions at the site for up to thirty years after closure. Although closure and postclosure care costs will be paid only near the date or after the date that the landfill stops accepting waste, the County reports a portion of these closure and postclosure care costs as a liability based on landfill capacity used as of each balance sheet date.

The Hancock Landfill was closed in 1993. The remaining estimated costs associated with the closure and postclosure care costs of \$336,586 are reported as a liability in the Solid Waste Fund. No current expense was recognized in the Solid Waste Fund for the year ended June 30, 2004.

The Resh Landfill has reported a landfill closure and postclosure care liability of \$15,791,865 in the Solid Waste Fund. The total capacity has been used. The Resh Landfill was closed in December 2000. No current expense was recognized in the Solid Waste Fund for the year ended June 30, 2004.

The Rubble Landfill began operating during August 1995. The estimated costs associated with closure and post closure care of \$11,966 are reported as a liability in the Solid Waste Fund at June 30, 2004. The Rubble Landfill was closed in December 2000. Expense of \$609,000 was recognized in the Solid Waste Fund for the year ended June 30, 2004.

The 40 West Landfill began operation is fiscal year 2001. The estimated life of this landfill is 75 years and at June 30, 2004, it is estimated that approximately 6% of the capacity has been used. The estimated costs associated with closure and postclosure care of \$2,210,455 are reported as a liability in the Solid Waste Fund at June 30, 2004. The County will recognize \$39,109,000 of estimated cost associated with the closure and postclosure care as capacity is filled. Expense of \$756,098 was recognized in the Solid Waste Fund for the year ended June 30, 2004.

The above estimates are based on estimated current costs to perform all closure and postclosure care. Actual costs may be higher due to inflation, changes in technology, or changes in regulations.

The County is required by state and federal laws and regulations to meet certain closure and postclosure financial assurance requirements. The County has satisfied these requirements by demonstrating in information submitted by the Chief Financial Officer that they meet the Local Government Financial Test as of June 30, 2004 as specified in 40CFR258.

Note 18. Postretirement Benefits

The County offers postretirement health care benefits to employees who retire from the County under normal or early retirement provisions of the pension plan. The health care benefits are provided until the retiree is eligible for Medicare. Retirees who exercise the one-time option for the health care benefits pay one-half of the estimated cost of the benefits. The County pays the remaining cost as part of its self-insurance program. Currently, eighteen retirees are receiving benefits and forty-nine employees are retirement eligible. Expenditures for postretirement health care benefits are recognized as retirees report claims and include a provision for estimated claims incurred but not yet reported.

The County offered a special termination benefit to employees that retired between July 1, 1995 and September 30, 1995. Those employees are receiving health care benefits (managed care program) from the date of retirement until they are eligible for Medicare. Five former employees are receiving this benefit.

COUNTY COMMISSIONERS OF WASHINGTON COUNTY

NOTES TO FINANCIAL STATEMENTS

Note 18. Postretirement Benefits (Continued)

The County offered a special termination benefit to employees that retired between July 1, 1996 and September 30, 1996. Those employees are receiving health care benefits (managed care program) from the date of retirement until they are eligible for Medicare. Five former employees are receiving this benefit.

Based on the current estimated cost of these managed care programs, the total cost of the benefits net of benefits paid through June 30, 2004 is estimated at \$707,546, of which \$112,735 is expected to be paid within the next year. A liability for this amount has been recorded in the general fund.

During the year, expenditures of approximately \$588,586 were recognized for postretirement health care.

Note 19. Contingencies and Commitments

County:

The financial statements of the Water Quality Department and the Public Transit Fund have been prepared on a going-concern basis, which contemplates the realization of assets and liquidation of liabilities in the ordinary course of business. The continuity of the water and sewer and transportation systems as enterprises of the County is dependent upon continued subsidies from the General Fund and from other governmental units. Should the continuity of these systems be interrupted, the stated amount of assets would not necessarily constitute a fair basis of presentation. The liabilities ultimately represent obligations of the County.

In the normal course of operations, the County receives grant funds from various federal and state agencies. The grant programs are subject to audit by agents of the granting authority, the purpose of which is to ensure compliance with conditions precedent to the granting of funds. Any liability for reimbursement which may arise as the result of these audits is not believed to be material.

The County Commissioners and the Sheriff of Washington County are defendants in various legal proceedings at June 30, 2004. There are also certain unasserted claims that could possibly be asserted. The Commissioners intend to defend all litigations against them. In the Commissioners' opinion, the liability, if any, in or arising from these litigations or any other legal proceedings in which the County is involved, will not have a material adverse effect on its financial condition.

The County is committed under various contracts for the construction or acquisition of fixed assets. These projects are generally budgeted in the Capital Projects Fund, and funding has been provided for their completion.

The County has begun a project to extend and reconstruct a runway at Hagerstown Regional Airport in order to be in compliance with recent Federal Aviation Administration (FAA) regulations. The project is estimated to cost \$60,200,000 and expected to be completed by 2008. Grant funding is projected to extend through 2014, which will require the County to obtain bridge financing to complete the project. In July 2003, the Federal Aviation Administration announced its intention to obligate federal funds in the aggregate of \$47,000,000. The State has indicated its intention to fund \$8,000,000, which does not require a local match. The County also expects to receive an additional \$2,600,000 from the State, which the County must match. The County will also be responsible for the additional costs for financing. The County has entered into a contract with URS Corporation for architectural, engineering and other consulting services related to the design phase of the project. Additionally, the County signed a construction contract on March 30, 2004 with C. William Hetzer, Inc. for construction of Phase 1 of the project for a base price of \$17,429,655. As of June 30, 2004, the total amount expended for the project was \$4,871,030 of which \$4,307,443 was federally funded, \$239,302 was state funded and \$324,285 was locally funded.

COUNTY COMMISSIONERS OF WASHINGTON COUNTY

NOTES TO FINANCIAL STATEMENTS

Note 19. Contingencies and Commitments (Continued)

Board of Education:

In the normal course of operations, the School System is subject to lawsuits and claims. In the opinion of management, the disposition of such lawsuits and claims will not have a material effect on the School System's financial position or results of operations.

As of June 30, 2004, the School System had entered into various school construction commitments, which are not reflected in the financial statements since they will be funded by the State of Maryland or County bond issues, totaling approximately \$7,480,663.

In May 2004, the School System agreed to a three-year contract for testing data analysis and evaluation services of \$400,000 plus travel costs with Performance Matters, LLC. This agreement is to facilitate access of Washington County Public School System employees to the Washington County Public School System Scorecard. After the expiration of the initial term, this agreement shall automatically renew on the terms and conditions contained herein for up to three additional consecutive one-year periods upon the anniversary date of the initial term.

The School System participates in a number of state and federally assisted grant programs, which are subject to financial and compliance audits by the grantors or their representatives. Such federal programs were audited in accordance with the Federal Office of Management and Budget's Circular No. A-133, *Audits of States, Local Governments, and Non-Profit Organizations* for the current year. The amount of expenditures that may be disallowed by the granting agencies cannot be determined at this time, although the School System expects such amounts, if any, to be immaterial.

Note 20. Designated and Reserved Fund Balances

Fund balances reflected in the governmental funds balance sheet are designated as follows:

Cash reserves (stabilization fund)	\$ 16,720,894
Foreign Trade Zone	6,692
Community Partnership	492,008
Inmate Welfare	175,328
Agricultural Education Center	61,964
Highway	1,338,834
Fire and Rescue Revolving Loan Fund	474,052
Capital projects	<u>19,573,212</u>
Total Primary Government	<u>\$ 38,842,984</u>

At June 30, 2004, various County departments and other entities owe the general fund amounts, which are scheduled to be repaid in future years, as follows:

Due From	Amount	Amount Reserved
Water Quality department	\$ 480,000	\$ 240,000
Hagerstown Regional Airport	776,256	700,878
Town of Funkstown	6,041	6,041
Fire and Rescue Revolving Loan Fund	<u>474,052</u>	<u>1,000,000</u>
	<u>\$ 1,736,349</u>	<u>\$ 1,946,919</u>

COUNTY COMMISSIONERS OF WASHINGTON COUNTY

NOTES TO FINANCIAL STATEMENTS

Note 20. Designated and Reserved Fund Balances (Continued)

Fund balance as indicated has been reserved to reflect the payments that the general fund will receive subsequent to the fiscal year ending June 30, 2004. Such payments are considered to be "available for appropriation or expenditure" when they will be received during the next fiscal year.

Note 21. Retirement Plan - Fire and Rescue Volunteers

On September 26, 2000, the Board of County Commissioners approved the Volunteer Length of Service Award Program (LOSAP), a defined benefit plan for eligible volunteers of Washington County fire, rescue, emergency medical services or support organizations. The Plan, which will be funded entirely by the County general fund, provides benefit payments to volunteers who have completed certain eligibility and years of service. An active volunteer who has attained age 62 and has been credited with a minimum of 25 years of Active LOSAP Service is eligible to receive, until his or her death, a monthly benefit payment of \$200, or may elect an actuarially reduced benefit in the form of a joint survivor annuity.

An Active Volunteer, who has completed more than 25 years of Active LOSAP Service Credit, is eligible to receive, until his or her date of death, an additional monthly benefit payment of \$15 for each year of Active LOSAP Service Credit in excess of 25 years, not to exceed a total monthly benefit payment of \$350. No benefits under the Plan will be paid before January 1, 2007. Generally, a volunteer must be an Active Volunteer on or after January 1, 2007 to be eligible for any benefit under the Plan. The Plan also provides for death and disability benefits.

At July 1, 2003 the date of the latest actuarial valuation, there were 1,493 active volunteers participating in the Plan. The County funds the plan in annual amounts determined by an actuary.

As of July 1, 2003 the LOSAP unfunded accrued liability is as follows:

Accrued Liability	\$ 3,075,607
Less: Assets at market value	<u>(1,294,482)</u>
Unfunded Accrued Liability	<u><u>\$ 1,781,125</u></u>

The minimum recommended contribution, which has been accrued as a payable by the County at June 30, 2004, is as follows:

Normal costs	\$ 207,924
Amortization of UAL (over 17 years)	178,208
Interest on UAL	<u>29,925</u>
	<u><u>\$ 416,057</u></u>

COUNTY COMMISSIONERS OF WASHINGTON COUNTY

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
GENERAL FUND**

**YEAR ENDED JUNE 30, 2004
(UNAUDITED)**

	Budgeted Amounts			Variance with Final Budget -
	Original	Final	Actual Amounts	Positive (Negative)
REVENUES				
Property Tax				
Real property tax	\$ 63,743,025	\$ 63,743,025	\$ 64,480,432	\$ 737,407
Personal property tax	12,034,672	12,034,672	11,738,387	(296,285)
Property tax interest income	325,000	325,000	364,918	39,918
Other property tax	903,000	903,000	726,651	(176,349)
Property tax discounts and credits	(1,808,500)	(1,808,500)	(1,814,105)	(5,605)
Total Property Taxes	\$ 75,197,197	\$ 75,197,197	\$ 75,496,283	\$ 299,086
Other Local Taxes				
Income tax	\$ 50,216,439	\$ 50,216,439	\$ 53,071,877	\$ 2,855,438
Disparity grant	250,563	250,563	213,559	(37,004)
Admissions and amusement tax	300,000	300,000	336,520	36,520
Recordation tax	5,300,000	7,591,680	9,099,556	1,507,876
Trailer tax	350,000	350,000	379,405	29,405
Hotel/Motel tax	575,000	575,000	669,232	94,232
Total Other Local Taxes	\$ 56,992,002	\$ 59,283,682	\$ 63,770,149	\$ 4,486,467
Other Revenues				
Licenses and permits	\$ 1,359,000	\$ 1,359,000	\$ 1,439,819	\$ 80,819
Court costs and fines	113,820	113,820	225,919	112,099
Charges for services	469,975	517,405	633,558	116,153
Revenues from use of property	1,452,650	1,452,650	1,272,907	(179,743)
Reimbursed expenses	608,800	618,800	800,233	181,433
Miscellaneous revenues	147,220	562,804	203,074	(359,730)
Grant and shared revenues	2,422,000	4,259,535	3,834,026	(425,509)
Total Other Revenues	\$ 6,573,465	\$ 8,884,014	\$ 8,409,536	\$ (474,478)
TOTAL REVENUES	\$ 138,762,664	\$ 143,364,893	\$ 147,675,968	\$ 4,311,075
EXPENDITURES				
General Government				
Legislative				
County Commissioners	\$ 221,540	\$ 221,540	\$ 226,286	\$ (4,746)
County Clerk	88,850	88,850	87,854	996
County Administrator	228,140	228,140	234,077	(5,937)
Public Information	-	93,150	82,326	10,824
Purchasing	326,460	326,460	320,118	6,342
Total Legislative	\$ 864,990	\$ 958,140	\$ 950,661	\$ 7,479
Judicial				
Circuit Court	\$ 994,650	\$ 994,650	\$ 948,153	\$ 46,497
Orphan's Court	30,440	30,440	29,461	979
State's Attorney	1,721,287	1,708,507	1,618,220	90,287
Sheriff - Judicial	906,020	907,604	846,508	61,096
Total Judicial	\$ 3,652,397	\$ 3,641,201	\$ 3,442,342	\$ 198,859
Election Board	\$ 552,530	\$ 552,530	\$ 448,667	\$ 103,863
Financial Administration				
Budget and Finance	\$ 811,370	\$ 811,370	\$ 803,868	\$ 7,502
Independent Auditing	50,500	50,500	47,500	3,000
Treasurer	324,260	329,210	326,541	2,669
Information Technologies	1,050,930	1,050,930	1,039,252	11,678
Total Financial Administration	\$ 2,237,060	\$ 2,242,010	\$ 2,217,161	\$ 24,849
County Attorney	\$ 516,420	\$ 516,420	\$ 530,235	\$ (13,815)
Human Resources	\$ 622,950	\$ 529,800	\$ 476,291	\$ 53,509
Planning and Zoning				
Planning and Community Development	\$ 913,110	\$ 913,110	\$ 886,519	\$ 26,591
Board of Zoning	51,540	51,540	52,163	(623)
Total Planning and Zoning	\$ 964,650	\$ 964,650	\$ 938,682	\$ 25,968

COUNTY COMMISSIONERS OF WASHINGTON COUNTY

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
GENERAL FUND**

**YEAR ENDED JUNE 30, 2004
(UNAUDITED)**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
(Continued)				
Public Works				
Engineering	\$ 1,069,520	\$ 1,196,450	\$ 1,101,406	\$ 95,044
Department of Public Works	226,190	226,190	227,683	(1,493)
Total Public Works	\$ 1,295,710	\$ 1,422,640	\$ 1,329,089	\$ 93,551
County Owned Buildings				
Martin Luther King Center	\$ 65,900	\$ 75,900	\$ 72,702	\$ 3,198
Administrative Building	168,500	168,500	155,818	12,682
Court House	423,280	413,280	374,497	38,783
County Office Building	142,300	142,300	145,097	(2,797)
Administration Annex	75,000	82,500	64,758	17,742
Central Services	187,940	187,940	195,317	(7,377)
Rental Properties	7,500	7,500	16,385	(8,885)
Library Maintenance	24,000	24,000	10,679	13,321
Dwyer Center	23,700	23,700	21,907	1,793
Total County Owned Buildings	\$ 1,118,120	\$ 1,125,620	\$ 1,057,160	\$ 68,460
Gaming Office	\$ 149,800	\$ 149,800	\$ 135,795	\$ 14,005
Community Promotion				
Contributions to Non-profits	\$ 177,491	\$ 172,541	\$ 629,499	\$ (456,958)
Economic Development Commission	441,400	451,400	448,867	2,533
Economic Development Promotion	-	-	440,000	(440,000)
Grants	-	1,938,089	1,403,251	534,838
Total Community Promotion	\$ 618,891	\$ 2,562,030	\$ 2,921,617	\$ (359,587)
Total General Government	\$ 12,593,518	\$ 14,664,841	\$ 14,447,700	\$ 217,141
Public Safety				
Sheriff Departments				
Patrol	\$ 4,825,220	\$ 5,086,331	\$ 5,096,908	\$ (10,577)
Sheriff Auxillary Department	-	-	41,351	(41,351)
Narcotics Task Force	331,064	331,064	337,820	(6,756)
Total Sheriff Department	\$ 5,156,284	\$ 5,417,395	\$ 5,476,079	\$ (58,684)
Fire and Rescue Services				
Volunteer Fire and Rescue - County Grants	\$ 2,461,015	\$ 2,461,015	\$ 2,321,306	\$ 139,709
Air Unit	17,700	17,700	18,316	(616)
Special Operations	135,160	139,421	151,362	(11,941)
Total Fire and Rescue Services	\$ 2,613,875	\$ 2,618,136	\$ 2,490,984	\$ 127,152
Corrections				
Detention Center	\$ 7,131,058	\$ 7,119,058	\$ 7,031,542	\$ 87,516
Total Corrections	\$ 7,131,058	\$ 7,119,058	\$ 7,031,542	\$ 87,516
Other Public Safety				
Building Inspection	\$ 1,091,022	\$ 1,091,022	\$ 1,072,632	\$ 18,390
Plumbing Inspection	149,244	149,244	142,803	6,441
911 - Communications	1,255,274	1,276,202	1,293,928	(17,726)
Communications Maintenance	251,359	282,859	264,139	18,720
Emergency Management	24,350	41,319	35,621	5,698
Medical Examiner	6,000	6,000	4,355	1,645
Civil Air Patrol	3,395	3,395	3,395	-
Animal Control	510,620	510,620	510,620	-
Children's Village	19,400	19,400	19,400	-
Total Other Public Safety	\$ 3,310,664	\$ 3,380,061	\$ 3,346,893	\$ 33,168
Total Public Safety	\$ 18,211,881	\$ 18,534,650	\$ 18,345,498	\$ 189,152
Health				
Total Health	\$ 1,806,167	\$ 1,806,167	\$ 1,802,583	\$ 3,584
Social Services				
Total Contributions to Other Agencies	\$ 870,504	\$ 870,504	\$ 871,721	\$ (1,217)
Total Social Services	\$ 870,504	\$ 870,504	\$ 871,721	\$ (1,217)

COUNTY COMMISSIONERS OF WASHINGTON COUNTY

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
GENERAL FUND**

**YEAR ENDED JUNE 30, 2004
(UNAUDITED)**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
(Continued)				
Education				
Total Education	\$ 81,518,409	\$ 81,518,409	\$ 81,517,409	\$ 1,000
Parks, Recreation, and Culture				
Total Contributions to Other Agencies	\$ 1,748,072	\$ 1,748,072	\$ 1,748,072	\$ -
Parks Department	1,301,330	1,309,467	1,227,239	82,228
Martin L. Snook Park Pool	115,800	115,800	82,526	33,274
Recreation	444,552	444,552	430,838	13,714
Total Parks, Recreation, and Culture	\$ 3,609,754	\$ 3,617,891	\$ 3,488,675	\$ 129,216
Conservation of Natural Resources				
Weed Control	\$ 44,200	\$ 44,200	\$ 53,882	\$ (9,682)
Agricultural Extension Service	173,953	173,953	173,953	-
Cooperative Extension	34,435	34,435	34,435	-
Soil Conservation Service	42,602	42,602	42,602	-
Gypsy Moth Program	35,000	35,000	5,795	29,205
Total Conservation of Natural Resources	\$ 330,190	\$ 330,190	\$ 310,667	\$ 19,523
General Operations				
Total General Operations	\$ 558,140	\$ 558,140	\$ 693,665	\$ (135,525)
Unallocated Employee Insurance and Benefits				
Total Unallocated Employee Insurance and Benefits	\$ 216,921	\$ 216,921	\$ 772,791	\$ (555,870)
Intergovernmental				
Water and Sewer operating transfer	\$ 3,120,000	\$ 3,120,000	\$ 3,120,000	\$ -
Public Transit operating transfer	417,345	417,345	417,345	-
Airport operating transfer	92,150	92,150	92,150	-
Capital Projects operating transfer	2,111,355	4,311,355	4,711,355	(400,000)
Solid Waste operating transfer	275,000	275,000	275,000	-
Community Partnership operating transfer	129,879	129,879	129,879	-
Agricultural Education Center operating transfer	128,650	128,650	128,650	-
Grants to incorporated municipalities	1,225,000	1,225,000	1,258,838	(33,838)
Municipality in lieu of bank shares	38,543	38,543	38,543	-
Total Intergovernmental	\$ 7,537,922	\$ 9,737,922	\$ 10,171,760	\$ (433,838)
Debt Service				
Total Debt Service	\$ 11,509,258	\$ 11,509,258	\$ 11,511,665	\$ (2,407)
TOTAL EXPENDITURES	\$ 138,762,664	\$ 143,364,893	\$ 143,934,134	\$ (569,241)
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	\$ -	\$ -	\$ 3,741,834	\$ 3,741,834
OTHER FINANCING SOURCES (USES)				
Principal amount of new debt for advance refunding			\$ 10,429,523	
Deposit to escrow fund for advance refunding and repayment of loans			(10,217,645)	
TOTAL OTHER FINANCING SOURCES (USES)			\$ 211,878	
NET CHANGES IN FUND BALANCE			\$ 3,953,712	
FUND BALANCE - BEGINNING			17,445,621	
FUND BALANCE - ENDING			\$ 21,399,333	

COUNTY COMMISSIONERS OF WASHINGTON COUNTY

STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
HIGHWAY FUND

YEAR ENDED JUNE 30, 2004
(UNAUDITED)

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
REVENUES				
Highway user revenue	\$ 5,034,000	\$ 5,034,000	\$ 5,559,386	\$ 525,386
Reimbursed expenses	153,400	207,262	221,230	13,968
Other revenue	1,203,556	1,203,556	26,232	(1,177,324)
TOTAL REVENUES	<u>\$ 6,390,956</u>	<u>\$ 6,444,818</u>	<u>\$ 5,806,848</u>	<u>\$ (637,970)</u>
EXPENDITURES				
General Operations	\$ 504,817	\$ 505,016	\$ 462,671	\$ 42,345
Road Maintenance	3,683,187	3,683,187	3,043,278	639,909
Snow Removal	564,250	564,250	836,796	(272,546)
Storm Damage	46,630	100,293	118,795	(18,502)
Traffic Control	376,923	376,923	349,036	27,887
Fleet Management	1,215,149	1,215,149	1,184,756	30,393
TOTAL EXPENDIUTURES	<u>\$ 6,390,956</u>	<u>\$ 6,444,818</u>	<u>\$ 5,995,332</u>	<u>\$ 449,486</u>
EXCESS (DEFICIT) OF REVENUES OVER EXPENDITURES	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (188,484)</u>	<u>\$ (188,484)</u>
NET CHANGES IN FUND BALANCE			\$ (188,484)	
FUND BALANCE - BEGINNING			<u>1,527,318</u>	
FUND BALANCE - ENDING			<u>1,338,834</u>	

COUNTY COMMISSIONERS OF WASHINGTON COUNTY

STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
COMMUNITY PARTNERSHIP FUND

YEAR ENDED JUNE 30, 2004
(UNAUDITED)

	Budgeted Amounts			Variance with Final Budget -
	Original	Final	Actual Amounts	Positive (Negative)
REVENUES				
Grant Revenues	\$ -	\$ 3,384,620	\$ 2,704,530	\$ 680,090
TOTAL REVENUES	<u>\$ -</u>	<u>\$ 3,384,620</u>	<u>\$ 2,704,530</u>	<u>\$ 680,090</u>
EXPENDITURES				
General Operations	\$ 129,879	\$ 129,879	\$ 109,610	\$ 20,269
Office of Children, Youth and Families	-	2,251,738	1,623,923	627,815
Governor's Office of Crime Control and Prevention	-	595,614	544,732	50,882
Disadvantaged Disabilities Administration	-	30,536	30,495	41
Department of Earned Reinvestment	-	506,732	351,408	155,324
TOTAL EXPENDITURES	<u>\$ 129,879</u>	<u>\$ 3,514,499</u>	<u>\$ 2,660,168</u>	<u>\$ 854,331</u>
EXCESS OF REVENUES OVER EXPENDITURES	\$ (129,879)	\$ (129,879)	\$ 44,362	\$ (174,241)
OTHER FINANCING SOURCES (USES)				
Transfers in	129,879	129,879	129,879	-
NET CHANGES IN FUND BALANCE	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 174,241</u>	<u>\$ (174,241)</u>
FUND BALANCES - BEGINNING			<u>317,767</u>	
FUND BALANCES - ENDING			<u>\$ 492,008</u>	

COUNTY COMMISSIONERS OF WASHINGTON COUNTY

SCHEDULES OF FUNDING PROGRESS
REQUIRED SUPPLEMENTARY INFORMATION
(UNAUDITED)

(Dollar amounts in thousands)

EMPLOYEES' RETIREMENT PLAN OF WASHINGTON COUNTY

Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a) / c)
7/1/01	\$ 31,635	\$ 33,767	\$ 2,132	93.7%	\$ 20,143	10.6%
7/1/02	29,202	37,450	8,248	78.0%	20,999	39.3%
7/1/03	31,023	42,765	11,741	72.5%	21,979	53.4%

BOARD OF EDUCATION (Discretely presented component unit):

Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a) / c)
6/30/00	\$ 30,649	\$ 30,280	\$ (370)	101.2%	\$ 6,726	-5.0%
6/30/01	31,915	32,470	555	98.3%	7,255	7.6%
6/30/02	32,323	34,131	1,808	94.7%	7,868	23.0%
6/30/03	32,631	34,975	2,343	93.3%	8,134	28.8%